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Key Takeaways

- Dubai equities are at the forefront once again, topping the market performance for October 2024 and extending their yearly gains to 13%. Abu Dhabi markets have witnessed an uptick in IPOs during the year, with the recently concluded IPO of retailer Lulu garnering investor attention.

- Islamic Banking stocks have been outperforming their conventional counterparts, supported by increasing demand for Shariah-compliant products and the preference towards Islamic financing to fund Infrastructure projects. While Saudi Arabia equities have been flat for the year so far, some noteworthy wealth creators like ACWA Power and Ma'aden have outperformed.

- Crypto and Gold continue to surge ahead, while S&P500 had a quiet month with confusing earnings and economic numbers coming in. Economic metrics exhibit very high levels of polarity with street consensus always getting it wrong when played conservatively while the reality always turns more optimistic than expected. Valuation continues to be stretched at a market level for S&P 500 with the current trailing P/E far higher than the median.

- Wealth management is gaining interesting traction with mushrooming of single-family offices projected to touch 10,000 in number by 2030. The AUM of family office at $5 trillion will now shortly surpass hedge funds as an asset class.

- Market outlook for 2025 remains positive, with more than 50% of investors expecting equity market (especially US) to trend higher. Just for perspective, this was only 25% two years back and as stock markets has seen one of the largest gains, so is investor confidence.

Dubai is at the forefront once again topping the market performance for October 2024 by clocking 1.9% gain making the YTD 13%, helped by performance of real estate stocks. This comes on top of a 23% gain in 2023, a noteworthy feat indeed, although in terms of valuations, Dubai is most attractive compared to other regional markets! Kuwait follows Dubai with a performance of 5% YTD after falling 6.5% in 2023. It's raining IPOs in Abu Dhabi with Lulu's $1.46 billion IPO lapped up by a range of institutional and retail investors followed by employees. Lulu is hoping to use the money for store expansion and debt refinancing. This is the fourth large IPO coming from Abu Dhabi in

2024. GCC markets have to contend with increasing geopolitical turmoil brewing in the region which influences the oil price (dancing between $80 and $70). It is interesting to note the negative correlation between oil price and market performance as any fall in oil price due to demand weakness is offset by geopolitical spikes and supply tightness. OPEC+ will now carefully weigh its option to undo the supply curbs given the volatility.
GCC banking stocks also show case the power of Islamic banks vs conventional banks. Increasing demand for Shariah-compliant products has helped Islamic Banks increase their deposit base and profitability. Demand for Islamic financing to fund Infrastructure projects as part of vision 2030 has helped KSA Islamic Banks outperform conventional peers. The long-term outperformance of Islamic banks like Al-Rajhi, Alinma and Kuwait Finance House compared to conventional banks like Saudi National Bank, Qatar National Bank and First Abu Dhabi Bank can be interesting to analyse.

While Saudi Arabia equities have been flat for the year so far, some noteworthy wealth creators like ACWA Power and Ma'aden is something to note. ACWA power, while being a traditional utilities company clocked a CAGR of 80% in the last three years thanks to its focus on renewable energy and battery storage. Maaden's 25% CAGR in the last 3 years can be attributed to its focus on strengthening the mineral value chain which is key for global EV industry.

The region is also witnessing active deals from sovereign wealth funds like PIF, ADIA, QIA and Mubadala lapping up many emerging market direct investments like PIF's $1.5 billion acquisition of Zambian minerals through Manar minerals and the $50 billion MoU signed for "two-way" investments between Japanese banks and Saudi Arabia. ADIA committed to Hyundai's Indian IPO (which barely scraped through) and debt financing of GMR group (India based airport operator) while QIA took a 25% stake in Virgin Australia (no 2 Australian airline). Some divestments like UK's Thames River (ADIA) and Sainsbury (QIA) also showcases the astute institutional activity in GCC.

Among global asset classes, Crypto and Gold continues to rock while S&P500 had a quiet month with confusing earnings and economic numbers coming in. However, US markets lead the equity pack with a punching 20% YTD with hopes heavily leaning towards the party continuing the premise of a soft landing. Valuation continues to be stretched at a market level for S&P 500 with trailing P/E of 27 far higher than the median of 23.7 but with strong momentum at play, who cares? High valuation is also playing spoilsport for active managers that were heavily underweight Nvidia. Against benchmark weight of 3%, active managers weight was 1.9% leading to serious drag in performance. The question is why should active managers be so underweight on a stock that is literally holding the whole market and is up 145% YTD at that point? Maybe managers fear hugging the index and would frequently depart from index weights in pursuit of alpha. That pursuit can be a double-edged sword as they found it the hard way.

Economic metrics exhibit very high levels of polarity with street consensus always getting it wrong when played conservatively while the reality always turns more optimistic than expected. Equity markets are caught between policy rate uncertainty, US elections and AI hype while service sector is expanding but manufacturing stalling. Employment is strong in developed markets while weak in developing markets while financing conditions are accommodative in some parts and restrictive in many others. Large corporates are strong while small businesses are fragile. For now, investors should deal with this polarity while navigating the investing world. It is interesting to note that short-term rates are expected to come down, long-term yield projections remain high at 3.5% even by end of 2026, which can be a huge challenge.

In this polarized environment, wealth management is gaining interesting traction with mushrooming of single-family offices projected to touch 10,000 in number by 2030. This will position them as new stars of fund raising where venture capital and private equity funds may find them as interesting destinations to pitch for fund raising. The AUM of family office at $5 trillion will now shortly surpass hedge funds as an asset class. While the new millionaires and billionaires thank technology for the newfound wealth, it is also interesting to note that millennials (born 1981 or later) experienced their wealth increase primarily through appreciation in real estate more than any other asset categories. Of course, inequality exists in the wealth management space as well, where wealth cutoff to be in the top 1% is estimated at $11.7 million in Monaco compared to $0.05 million in Philippines!

The ascent of Gold is indeed surprising in this positively charged economic environment. Gold is now up 34% for the year and its price at $2,800/oz is a new life-time high to record the best year performance wise since 1979. The performance of gold is inspiring even after adjusting for inflation! Gold's rally looks unstoppable, and this has happened before only during war times when gold was looked as an inflation hedge. With inflation moderating and war contained to selective pockets of the world, why is gold turning out to be such a darling? Something to think about.

Bitcoin has also touched $70,000 and is still looked as nascent, untested asset class even after a decade of its existence. Asset allocators can ignore Bitcoins only at their own peril.

It is the time of the year when market outlook reports from leading investment banks will start to arrive. In a momentum and single theme driven market (read AI), investor expectations run positive. More than 50% of investors expect equity market (especially US) to trend higher. Just for perspective, this was only 25% two years back and as stock markets has seen one of the largest gains, so is investor confidence. The sentiment has never been so euphoric. Goldman Sachs predicts that rate-cutting cycle tends to be positive 12 months after the first rate cut and can mean 20% positive performance if no recession pans out.

In times like this, it is instructive to read Ray Dalio's holy grail of investing who advocates the merit of uncorrelated assets to portfolio performance. The probability of losing money reduces from 40% to 26% between 60% correlation and 10% correlation. Time to focus on return-to-risk ratio! It is also interesting to note how Warren Buffet is building cash. He recently reduced his Apple holding by 25% and his cash war chest is now close to $325 billion. Is he anticipating a crash?

Equity & Commodities	Close	Returns		
		Oct 2024	YTD-Oct 2024	2023
Global Equities				
Global (MSCI World)	3,647	-2.0%	15.1%	21.8%
USA (S&P 500)	5,705	-1.0%	19.6%	24.2%
Japan (TOPIX)	2,696	1.9%	13.9%	25.1%
GCC Equities				
GCC (S&P GCC Composite)	148	-1.2%	0.1%	6.2%
Saudi Arabia (TASI)	12,022	-1.7%	0.5%	14.2%
Abu Dhabi (FTSE ADX General Index)	9,328	-1.0%	-2.6%	-6.2%
Dubai (DFM General Index)	4,591	1.9%	13.1%	21.7%
Kuwait (Boursa Kuwait All Share PR)	7,158	0.3%	5.0%	-6.5%
Qatar (QE Index)				
Commodities				
Oil (Brent Crude in USD/bbl.)	73.2	1.9%	-5.0%	-10.3%
Gold (in USD/oz.)	2,503	2.2%	21.4%	13.1%

Fixed Income	Yields	
	Oct 2024	2023-end
U.S. Treasury 10Y Sov.	4.28%	3.88%
Saudi Arabia 10Y Sov.	4.81%	4.39%
Abu Dhabi 10Y Sov.	4.59%	4.32%
Kuwait 10Y Sov.	4.38%	4.34%

Source: Refinitiv, YTD and Yields as of Oct 31, 2024

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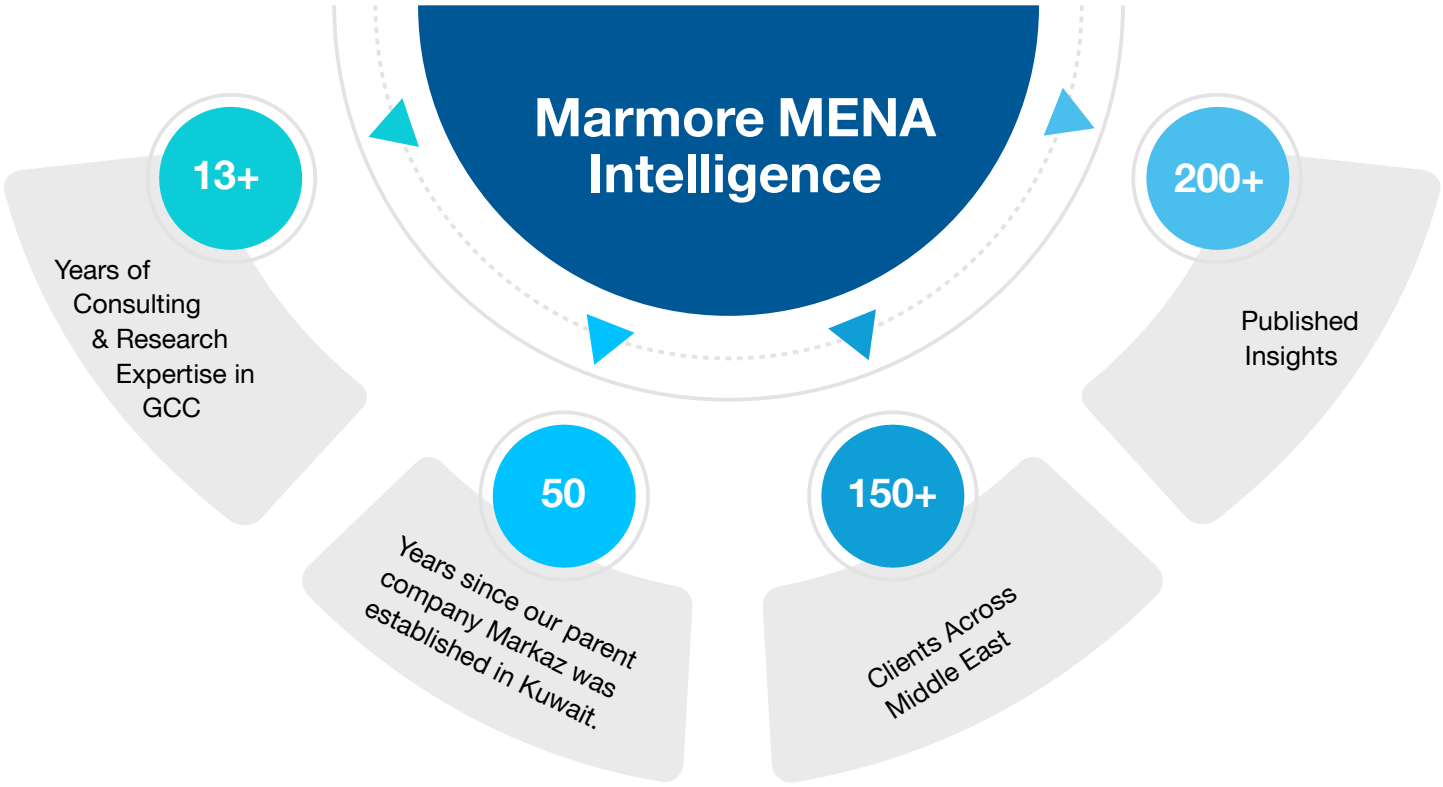

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