Market Update – August 2024

Bill Gates has been quoted as saying that the impact of new technologies is often overestimated on a two-year view but greatly underestimated over time periods of ten years or more. Generative AI for me, is a revolution that I am better off embracing sooner rather than later. I would like to draw your attention to the fact that this whole AI revolution is probably a 10 year plus cycle, with IT infrastructure dominating the first 3-5 years (Nvidia and its ilk). Other industries may adopt this down the line. I have never been good at predicting the markets, but I still feel that the current era could be similar to the phase when the world wide web was launched, and we all know how that has evolved.

We have all the right ingredients from an equity allocation point of view; The AI cycle will continue to see upgrades in earnings, there is a gradual disinflationary scenario in play, and we have a backstop from the FED. We could expect the Gen AI to percolate the fields of healthcare, banking etc., bringing in cost efficiencies and superior product delivery. Most expenditures by IT infrastructure companies that have been directed towards Datawarehouse's have been supported by cashflows as opposed to debt, which provides a lot of comfort.

It is our opinion that the world may need to contend with the fact that cost of capital over the next decade might not see the levels that we have seen in the last 14 years. To compound this, we might have elevated geopolitical situations, ballooning fiscal deficits, burgeoning labour population, and unsustainable climate changes. All of this sounds like a recipe for disaster but as a wise man once said, "this too shall pass". The essence of the above is to stay invested in this AI stack story and not get hassled by short term noises.

Let's talk about the dragon in the room, or shall we say the lack there of. There is nothing much to say other than to have a zero allocation, if not a short position in Chinese Equities. China's growth engine of the property market has nevertheless been tottering away, and if you add four straight months of factory activity contraction, you have a clear recipe for sustained lower growth. The only way out of this quagmire is to remove the deficit ceiling limit of 3% to GDP and thus move away from pro cyclical to counter cyclical.

I am not sure if the BoJ is walking the preferred line by indicating that they don't want to spook the markets on carry trades. A Central Bank follows a policy that addresses the mandates it has been set to deal with. If carry trades unwind as a consequence, then so be it. I was a bit surprised that the BoJ Deputy Governor gave assurances that they won't raise rates when markets are unstable. I still believe that the BoJ is not finished with hikes for the year. The BoJ clearly indicated that the policy rates are "very low in real terms".

Jobless claims have always been a leading indicator on the health of US labour markets, but that seems not to be the case of late. Bloomberg economist's latest update indicates that only one in four unemployed workers applying for unemployment benefits. If that's the case, then labour markets may be in a worse off position than was initially believed.

There is still some confusion on whether a recession is imminent or not. Iron ore, a hot topic over the last few weeks, seems to indicate that the case for recession is quite strong. The Chairman of China Baowu Steel Group, Hu Wangming, spelled out that China's steel sector was facing a "harsh winter". I am still inclined to stay in the camp that calls for a mild recession, and I am quite confident that the World's Central Banks have enough tools to steer us out of a shallow one. If the FED were to approach the policy of normalisation in a "methodical / gradual" manner, then the potential for a deeper recession could be on cards. I have always believed that the FED can never have a moment of triumph, it is always a reducing sense of concern.

The nation with approximately 26 atolls and over 1100 islands is clearly struggling on its fiscal front. This is quite evident from the way bonds have moved. I am still not convinced whether the current price offers attractive risk adjusted return.

The Indian Ocean's pearl is clearly on the mend. They just need to finalise the debt-restructuring deals with its dollar bondholders. The only downside I see from here is a surprise in the election that upends the current IMF programme.

The land of silver continues to confound me on policy . There is a slow crawl on currency depreciation (at 2% per month), which is unable to stem a rise in monthly prices. In addition, the negative real rates continue to negatively impact the economy. The country, however, is in fiscal and trade surplus mode. In short, this "La Nacion" has willingness to pay, but not necessarily the capacity. It's still better to wait on the sideline for the moment and observe over the next few months before one considers the assets in play.

Fund Positioning & Deployment Strategy

Data as of end August 2024

Global Sukuk Fund

The Fund remains overweight duration compared to its peers, and its current performance reflects the payoff. The Fund also remains an Investment Grade (Weighted Average Rating Factor-WARF) space and may continue to hold this stance, as WARF in crossover does not offer attractive risk adjusted return. The Fund is currently treading 6.8 years on duration and will continue to hold at these levels, given the odds of a recession. The Fund does not invest in credits below B-, which is beneficial given the expected spread widening in risky assets.

	1M	3M	6M	1YR	3YR	S.I.*
Global Sukuk Fund	1.96	3.87	4.48	7.87	5.30	7.38
Sukuk Peer Group**	1.73	3.60	4.23	6.73	1.03	3.67

Past performance is not an indicator or guarantee of future performance. The value of shares in the fund and income received from it can go down as well as up, and investors may not get back the full amount invested. Performance may also be affected by currency fluctuations of the underlying holdings. *The performance data shown is for the duration of the Global Sukuk Fund I(acc) USD share class which commenced its investment program on 16 November 2020. **Peer group data source based on available data for liquid global sukuk funds managed out of Bloomberg equally weighted against each constituent (USD share class). Source: Bloomberg, Refinitiv and Aditum Investment Management Limited, USD terms, bid to bid, income reinvested.

KEY METRICS	
Fund Size (US$m)*	135.81
Number of Holdings	36
Weighted Ave. Yield to Maturity*	5.99%
Weighted Ave. Modified Duration*	6.8
Weighted Ave. Credit Rating (worst of 3)	BBB-
Weighted Ave. Credit Rating (best of 3)	BBB-

*Metrics calculated excluding cash, Weighted Ave. Credit Ratings are based on the Best and Worst ratings from Fitch, Moody's and S&P

Global Alpha Fund

The Fund remains overweight in duration, and its current performance reflects the payoff. The Fund also remains in the Investment Grade (Weighted Average Rating Factor-WARF) space and may hold this stance, as WARF in crossover does not offer attractive risk adjusted return. The Fund is currently treading 12.0 years on duration, in short, locking in the real rates for an extended period of time. Meanwhile, the weighted average YTM on the Fund is locked for the next 12 plus years. The Fund may look to dial down on duration, depending on the next FED meeting decision and how the US election scenario evolves. The odds-on recession has increased given the weakening labour market, hence current the decision to hold duration at these levels. Keeping in mind the potential for US real rates to head lower and the economy cooling off, this fund offers reasonable value from a fixed income point of view.

	1M	3M	6M	1YR	S.I.*
Global Alpha Fund	2.75	6.33	4.95	9.32	9.26
Benchmark**	1.37	3.92	4.17	7.49	9.60

Past performance is not an indicator or guarantee of future performance. The value of shares in the fund and income received from it can go down as well as up, and investors may not get back the full amount invested. Performance may also be affected by currency fluctuations of the underlying holdings. *The performance data shown is for the duration of the Global Alpha Fund I(acc) USD share class which commenced its investment program on 8 March 2023. **Bloomberg Global Aggregate Bond Index 70% and JP Morgan EM Bond Fund Index 30%. Source: Bloomberg, Refinitiv and Aditum Investment Management Limited, USD terms, bid to bid, income reinvested,.

KEY METRICS	
Fund Size (US$m)*	85.48
Number of Holdings	39
Weighted Ave. Yield to Maturity*	6.20%
Weighted Ave. Modified Duration*	12.0
Weighted Ave. Credit Rating (Worst of 3)	BBB+
Weighted Ave. Credit Rating (Best of 3)	BBB+

*Metrics calculated excluding cash, Weighted Ave. Credit Ratings are based on the Best and Worst ratings from Fitch, Moody's and S&P

INVESTMENT MANAGER CONTACT DETAILS:

Aditum Investment Management Limited
Office 510, Level 5, Gate District 3
Dubai International Financial Centre., Dubai, UAE

PO Box 506605
Telephone: +971 4 875 3700
Email: info@aditumim.com
www.aditumim.com

DISCLAIMER