MACRO VIEW

APRIL 2024

GLOBAL MACROECONOMIC OVERVIEW

Sec. 1

Current Macro Position

Global economy has held up better than expected to start 2024 defying warnings of a recession. Last few quarters can be described as a period of slowing but resilient growth despite high interest rates, and geopolitical disruptions.

- Global manufacturing PMI has posted expansionary numbers for the last two reported months, highest since July 2022.
- Inflation is on a downward trajectory but complicated by more stickiness and new supply side concerns.
- Consequently, market optimism for the timing and pace of rate cuts have been reined in.
- Major equity markets rallied on strong corporate earnings rebound and tech driven momentum. The ACWI is up by 2% this year, after gaining 20% in 2023.
- GCC has mitigated lower oil output with robust non-oil growth. Saudi saw a mild contraction last year, UAE decelerated, though still above average growth.

Resilience so far has stemmed from

A
Strength of the US economy as well as improvements in several EMs such as India and Indonesia.

B
Fiscal support mitigated some impact of tighter credit conditions, especially in the US and China.

C
Consumer demand/ spending has held up, spurred on by strong labor markets and wage growth.

D
Longer maturities on existing stocks of low-cost debt.

Outlook

Global growth is projected to be 3.2% in 2024, a second straight year of softening and below trend growth (3.8% between 2000 to 2019).

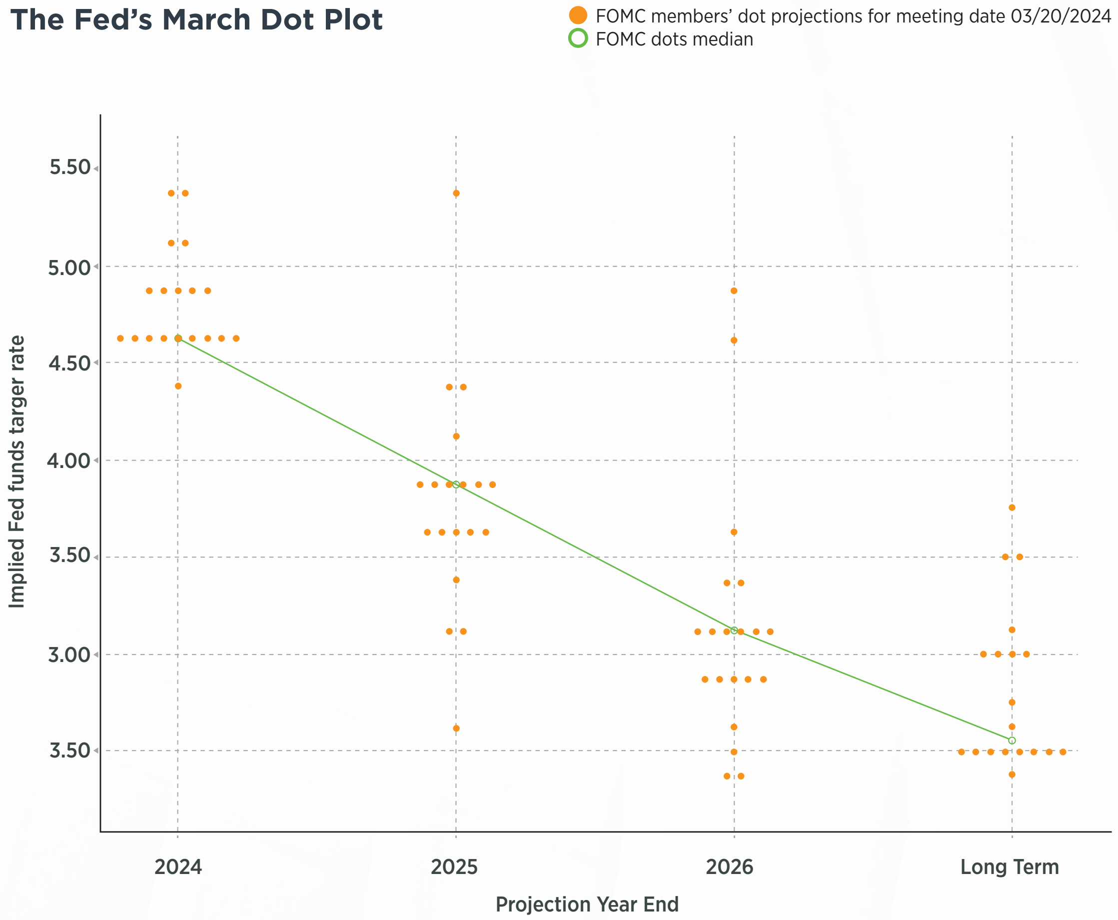
Soft landing priced in while recession risk remains

- Markets reflect a shift towards a soft landing as the year progresses and rate reversal comes into effect.
- IMF projects 2.6% inflation rates across the advanced economies this year, but recent numbers show more stickiness. US inflation accelerated for the second straight month in March to 3.5%.
- The ongoing geopolitical situation and the risk of higher energy prices remains a major inflation risk.

As a result, rate cuts have seemingly been pushed further and further back. Higher for longer remains a safer bet for investors.

- Fed's March dot-plot reiterated three 25 bps cuts, aiming for target rate of around 4.6% by year end.
- Markets are now more aligned with policy makers, even anticipating as little as two 25 bps cuts.

The Fed's March Dot Plot



***Source:** Federal Reserve*

Risks to the Outlook

Expect a long period of sluggish growth even with a soft landing

- The higher-for-longer strategy communicated by central banks has historically not coincided with soft landings. The global economy faces a multi year period of low growth amid burdened corporate and sovereign balance sheets and other external hurdles. IMF's Georgieva recently labelled this decade as the "tepid twenties".

Geopolitical arena remains concerning/uncertain

- Higher military expenditure and supply side disruptions could lead to adverse macro outcomes. A doubling of shipping costs could cause inflation to increase by 0.7 percentage points *(IMF)*.
- Many major economies will experience an election this year, including the US, UK and India, and several European countries. The outcomes are unpredictable and change of government is expected in several places which adds to policy uncertainty.

Global fragmentation weighs on trade and inflation

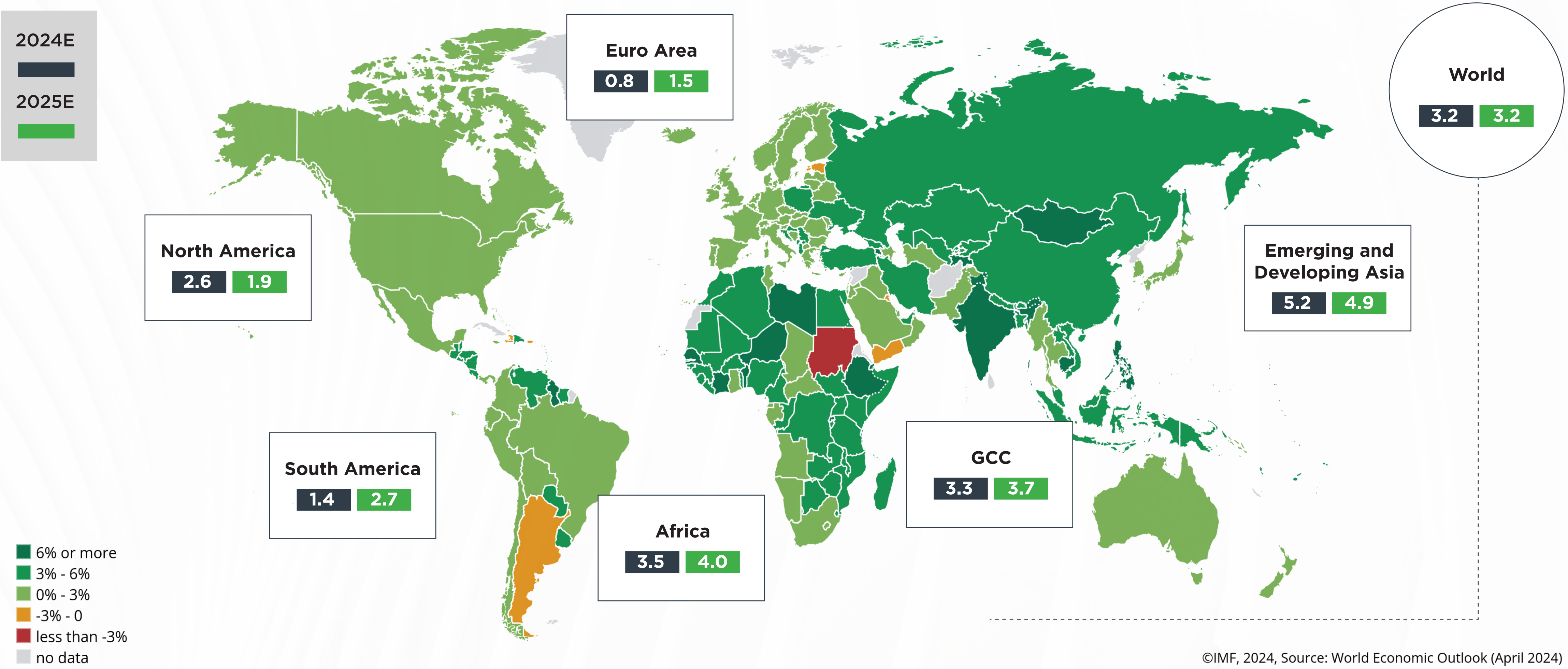
- In 2023, global trade grew by only 0.2%, weakest pace outside of a global recession in 50 years. During the year, close to 3,000 trade restricting measures were adopted, compared to around 700 in 2015.
- As global value chains shift and investment are diverted to domestic or regional supply chains, there will be opportunities especially for neutral countries like the UAE. But these trends will negatively impact much of the emerging countries which are dependent on trade.

Financial stress

- Currently, the number of developing economies in debt distress is at the highest level since 2000. For low-income countries, interest payments will average about 14% of revenue, roughly double the level from 15 years ago.
- Nearly $4.5 trillion of corporate debt is scheduled to mature in 2024 and 2025.

Regional Outlook *Sec. 2*

World Growth Heat Map 2024 - 2025



Regional Focus

United States

- Economic activity has been robust recently due to strong consumer spending and a hot labor market.
- Consequently, inflation has been more stubborn than other major DMs, complicating the rate outlook globally.
- There is a risk of further stress in the US banking system as banks have posted fresh losses in the commercial real estate space.

Impact

While technology sector is a boon for its markets, a significant percentage of listed companies have negative earnings.

Election uncertainty will be elevated this year. It is important to note that during Trump's tenure, markets generally did well in the US.

As earnings expectations are scaled back, high valuations could push investors towards other markets.

Earnings Outlook

Earnings growth: **2023** | 1.8% 2024E | 10.8%

Europe

- The European economy remains mixed although on track to mildly improve from last years stagnation.
- Revised down growth estimates stem from less room for disinflation , lower government spending and fewer expected rate cuts.
- Slow growth in China is a concern for exporters like Germany and France.

Impact

While earnings outlook is expected to be more fragile , investment opportunities will arise on the back of low valuation and urge to build energy infrastructure.

Technology, healthcare, and industrials are expected to be the best performing sectors this year.

Turn in the global rate cycle potentially good news for modestly priced Europe, particularly if dollar weakens.

Earnings Outlook

Earnings growth: **2023** | 2.75% **2024E** | 3.1%

Source: *FactSet Market Indices*
Note: *Total market earnings aggregates*

Regional Focus

While similar macro forces are at play, expect regional divergences to continue widening.

Emerging Markets

- Widening economic growth premium despite downside risks, as developed markets' growth slows. Asia is expected to contribute roughly 60% of global economic growth this year *(IMF)*.
- Fed cutting rates in second half of this year and higher commodity exports would provide more support for EMs currencies.
- US elections (tariff risk), challenges in China and geopolitical uncertainty weigh on the region. A 1 percentage point uptick in China's economy gives a 0.3 point boost to other Asian economies in the medium term *(IMF)*.

Impact

Attractive valuations by historic standards with positive expectations for earnings recovery.

EM currency and market prospects often outperform following the start of rate cut cycles.

In India, greater probability of continuity in the government, along with policy stability, will be positive for Indian assets. The country will continue to benefit from growing population and neutral geoeconomic position. India's GDP is expected to grow at over 6.5% per year on average over the next decade.

Indonesia's economic prospects remain promising with around 5% growth this year amid growing metal exports.

Earnings Outlook

Earnings growth:

Country	2023	2024E
India	27.73%	15.11%
China	-8.11%	14.94%

GCC

- Growth across the GCC will be driven by strong non-oil performance. Non-oil growth is expected to average 3.6% across the GCC in 2024. Overall GDP will be reliant on global oil demand and OPEC+ production decisions.
- Growth in government expenditure will likely be more modest than the last couple of years but still supportive.
- Global slowdown yet to draw down on oil demand and $90 will be welcomed by most GCC economies.
- Expansion in the non-oil sector, buoyed by sovereign investments linked to various economic diversification agendas. Last year, Saudi Arabia and the UAE increasing government spending by an estimated 9.5% y/y and 7.9% y/y respectively.

Impact

Regional growth is likely to continue to be a bright spot in the global context, although, regional tensions remain a headwind.

Corporates to benefit from slew of government initiatives and spending.

Diversification efforts are lowering sensitivities to commodity prices.

Earnings Outlook

Earnings growth:

Country	2023	2024E
UAE	20.12%	-3.93%
Saudi Arabia	-24.85%	2.95%

Source: *FactSet Market Indices* **Note:** *Total market earnings aggregates*

Global Markets *Sec. 3*

Performance

Momentum from 2023 has carried over to Q1 where global equities posted robust gains.

- Boosted by healthy corporate earnings, economic growth and expectations of rate cut later in the year.
- Enthusiasm over advancements in artificial intelligence led market gains.

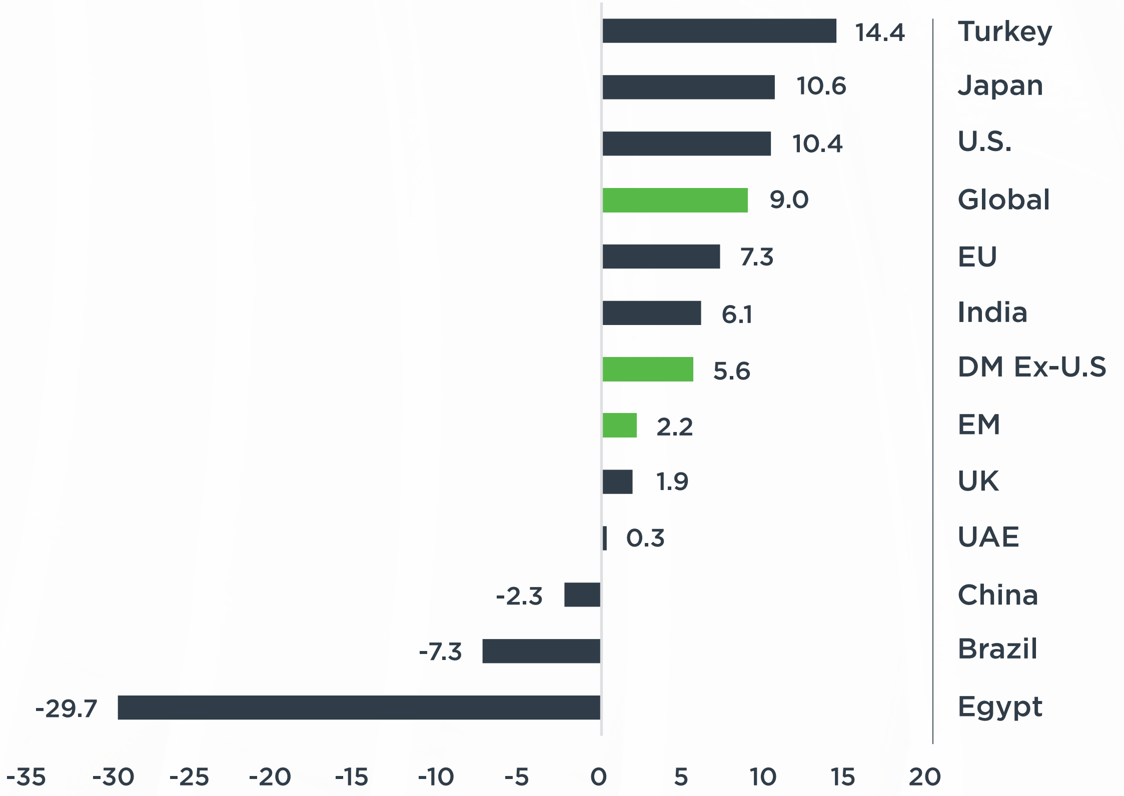
Earnings:

- A healthy earnings rebound is likely to play out in Q1. Global activity has so far surprised to the upside and the consumer has shown little signs of slowing yet on the back of macro resilience.

Valuations:

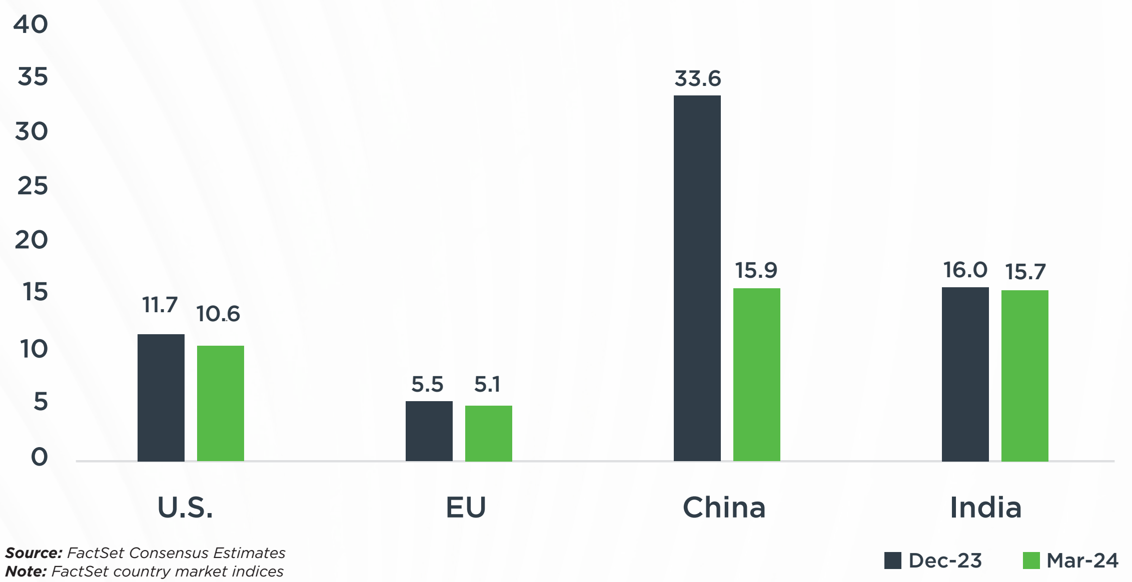
- Pockets of extended valuations, some of which can be attributed to a rally around the AI hype.
- Considerable geographic divergence in market valuations.

Global Equity Market Performance Q1 2024 (%)

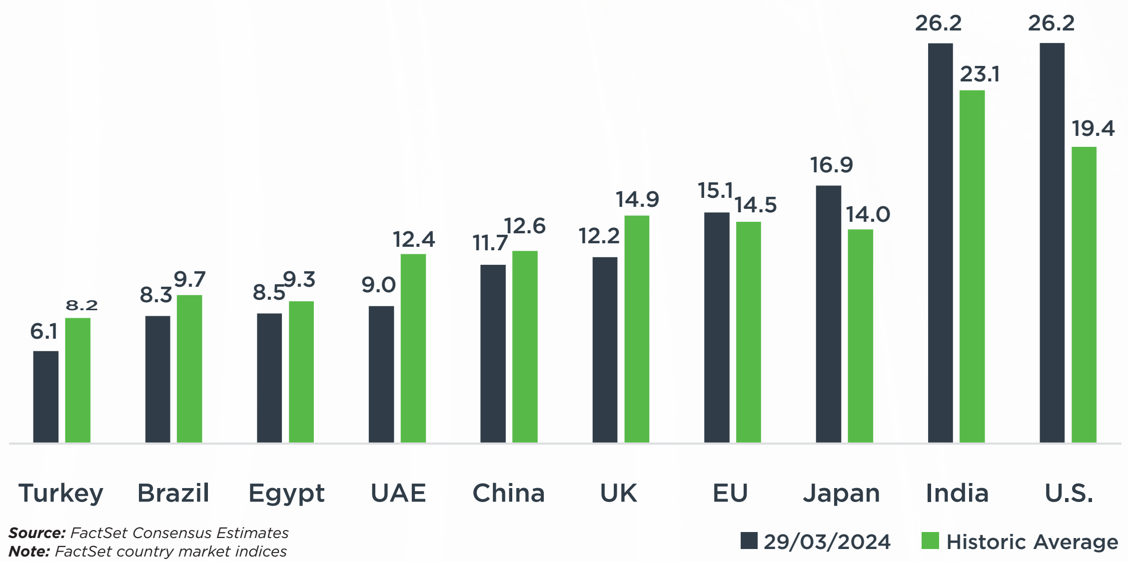


Source: *MSCI*
Note: *Total returns in USD terms*

Earnings and Valuations



Source: *FactSet Consensus Estimates*
Note: *FactSet country market indices*



Source: *FactSet Consensus Estimates*
Note: *FactSet country market indices*

Looking ahead

- Expect 2024 to be a strong year for equities. Although earning uncertainty looms and upside maybe limited due to high valuations.
- As businesses internalize higher rates, expect stronger performance by less levered, cash generating businesses.
- Investors looking to pivot to less bloated segments and geographies.
- Markets are priced for perfection – 2 to 3 rate cuts, geopolitical tensions not to escalate, and no financial shocks.

UAE Economy and Markets *Sec. 4*

UAE Economic Outlook

The local economy remains exceptionally strong despite global and regional risks.

Growth prospects

- Robust growth of over 4% expected in 2024. This is better than the last year and well above historical averages.
- OPEC+ March agreements will keep the oil GDP subdued until at least June, although prices have been edging up since Q3, sitting at a favorable $90.
- Over the longer term, government policies should continue to support the growth story as accumulated coffers continue to permit off-budget spending. Population growth, wealth inflows and corporate relocations to the UAE are likely to be a continued tailwind.

Abu Dhabi 2023

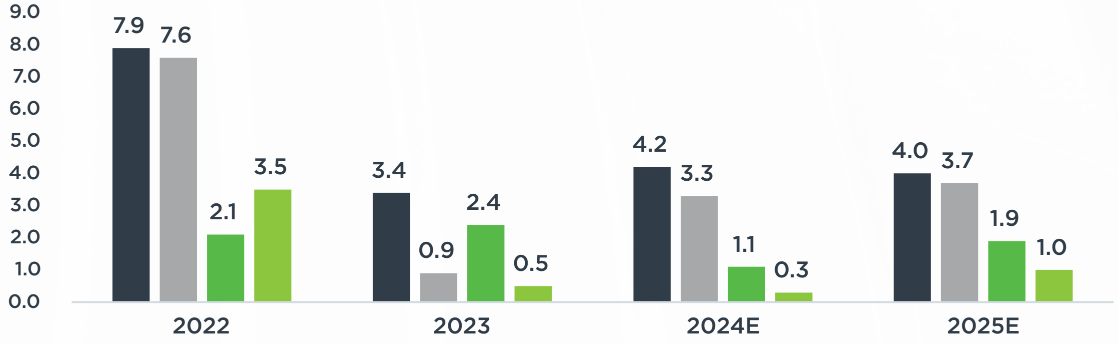
- Annual GDP grew 3.1% as non-oil economy grew 9.1% compared with 2022, the highest in MENA region.
- Contribution of non-oil activities to GDP reached more than 53%, led by industrial, finance and tourism sectors.

Risks to the outlook

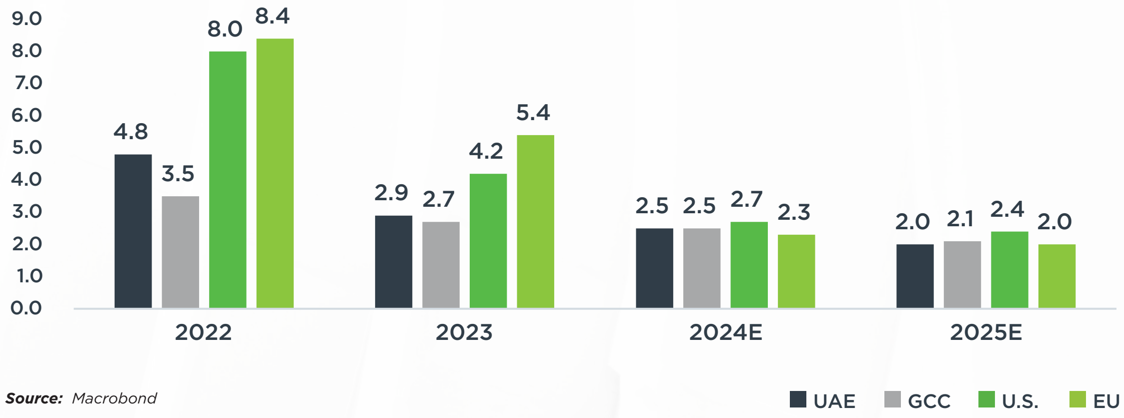
Regional tensions and the possibility of an escalation spilling over.

Slower than expected global economy and oil demand.

Real GDP Growth (%)



CPI Inflation YoY (%)



Source: *Macrobond*

UAE Markets Outlook

Markets performance is similarly diverged as last year

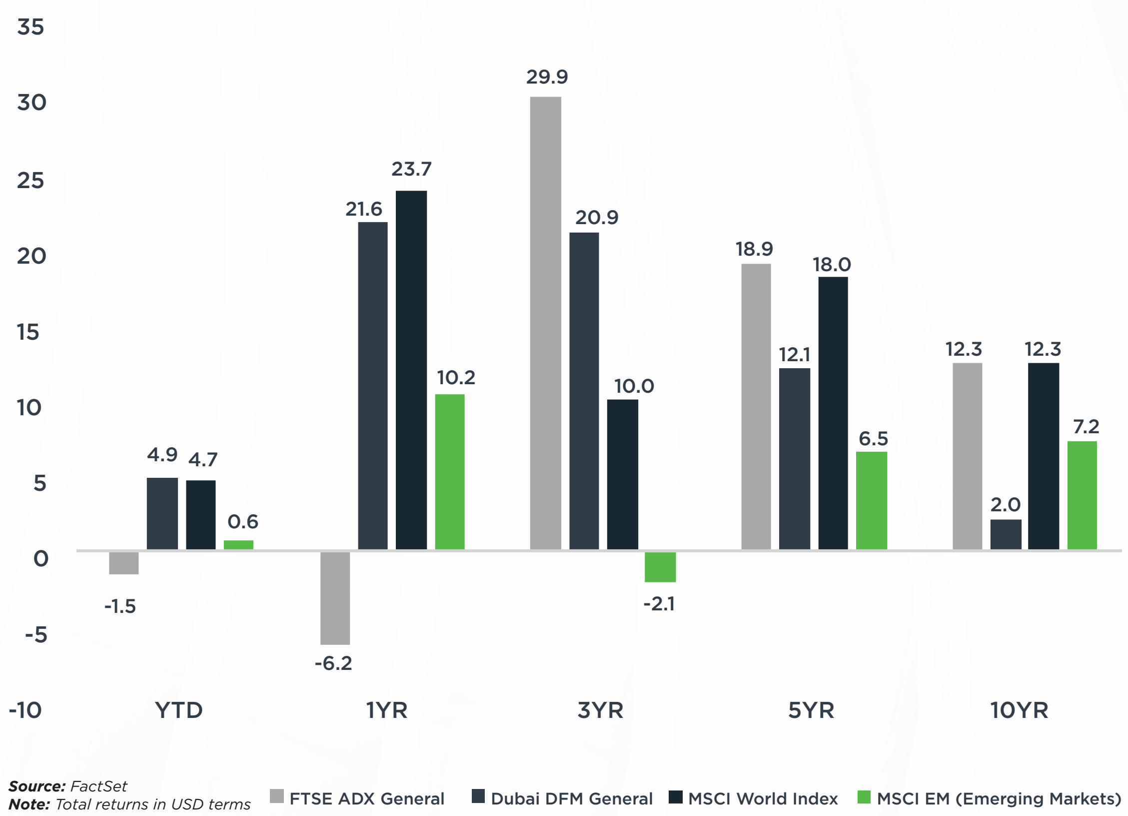
- DFM has sustained last year's momentum, although returns have decelerated on lower real estate and bank prospects.
- ADX has outperformed global and regional markets over the last 3 years. But, currently it remains constrained by high valuations and lack of earnings.
- ADX* strong revenue growth in FY23 (18.4%) is not translating into improved earnings (-5.8%) market wide due to:

Higher costs of debt | Corporate income tax | Investment losses

- Earnings and dividend yield of 3.1% and 2.0%, despite notable softening in prices, remain well below the risk-free rate.
- Large cap earnings are outperforming small caps significantly.
- Expect continuation of listings as the year progresses, though this is likely to weigh on wider market liquidity. Despite six IPOs last year, foreign investors were net sellers.

**ADX General unweighted excluding IHC*

YTD and Annualized Returns %



Source: *FactSet*
Note: *Total returns in USD terms*

Earnings outlook negative but improves for major sectors

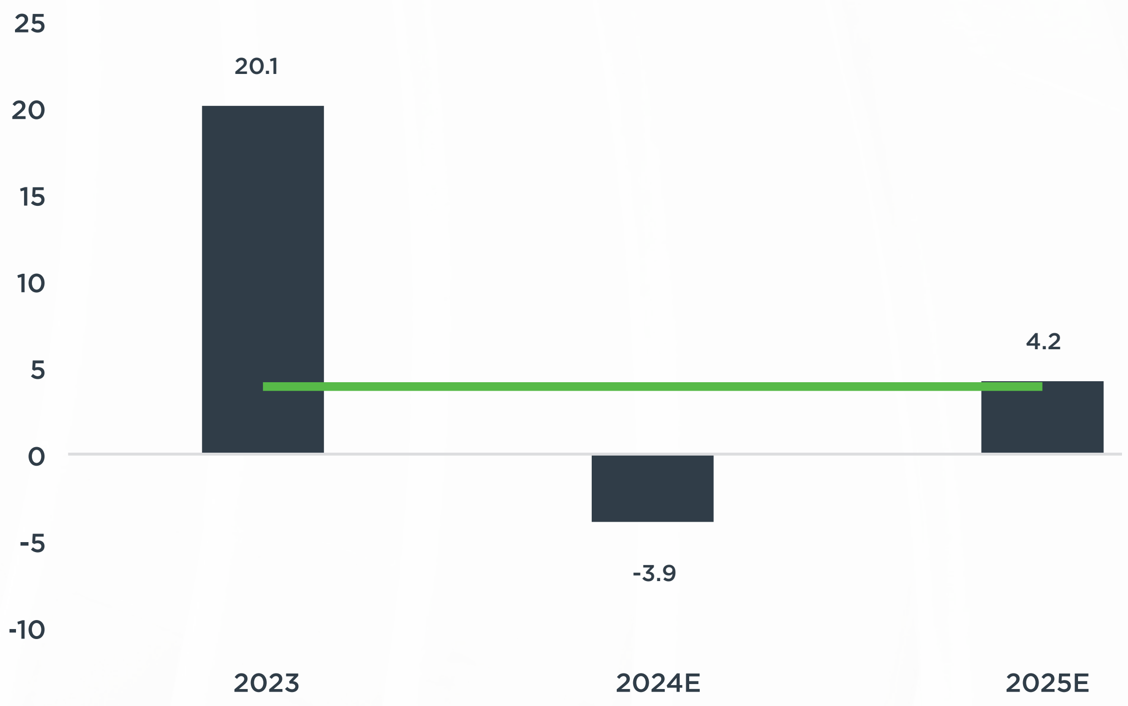
- Earnings growth is expected to be negative due to high base effect.
- Banks to benefit from Fed prolonging rate cuts. Energy related sectors and wider economy have enjoyed supportive oil prices to start the year.

Valuations mixed

- Abu Dhabi valuations have significantly moderated from 2022 peak. But with lower earnings and not many catalysts, we are unlikely to witness a market-wide upside. Compared to DFM, ADX is still overvalued.
- Wider UAE valuations are still compelling by EM standards considering UAE growth story but Investors will get more granular and favor businesses which have a decent growth headroom and offering strong dividends.

With global markets, especially the US, expected to perform well this year, and high fixed income yield, foreign investors have less incentive to seek returns in riskier markets.

UAE Earnings Growth (%)



Source: *FactSet*
Note: *UAE total market with analyst coverage*

Dealmaking and Investment Themes *Sec. 5*

Dealmaking Conditions

Private markets remain sluggish with cautious optimism for a recovery this year.

Deal flow has yet to materialize more broadly

- Q1 PE activity continued to move mostly sideways to moderately lower reflecting tight conditions. Deal count globally fell 9.9%.
- Global PE exits totaled $81.2 billion, down 22% from $103.8 billion in the first quarter of 2023. Depressed exits have led to holding period beyond 6 years for the first time since 2014.

PE fund performance has been edging up

- The six major public PE firms in 2023 reported median gross return of 9.8% in core strategies.
- While a far cry from 2021 returns of 55.7%, an improved trend compared to the 5.2% contraction in 2022.

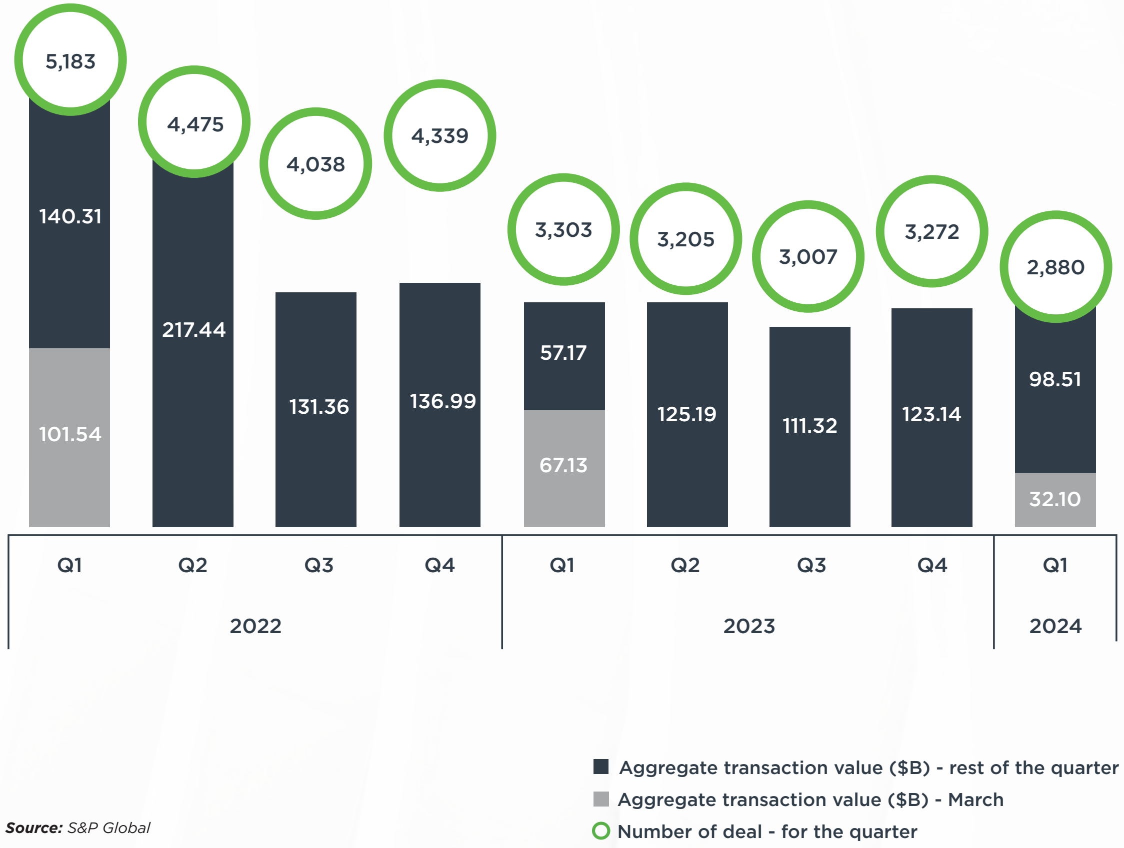
Activity should ramp up as the year progresses

M&A resurgence to reflect market confidence in the wider macro outlook, especially with $2.5 trillion private market dry powder.

With IPO markets now tested in major markets, expect a return to public listings as the year progresses.

Expect more opportunities as PE players look to monetize assets. For example, PEs are holding more than 1,200 unicorns that they need to monetize.

Global Private Equity and VC Activity

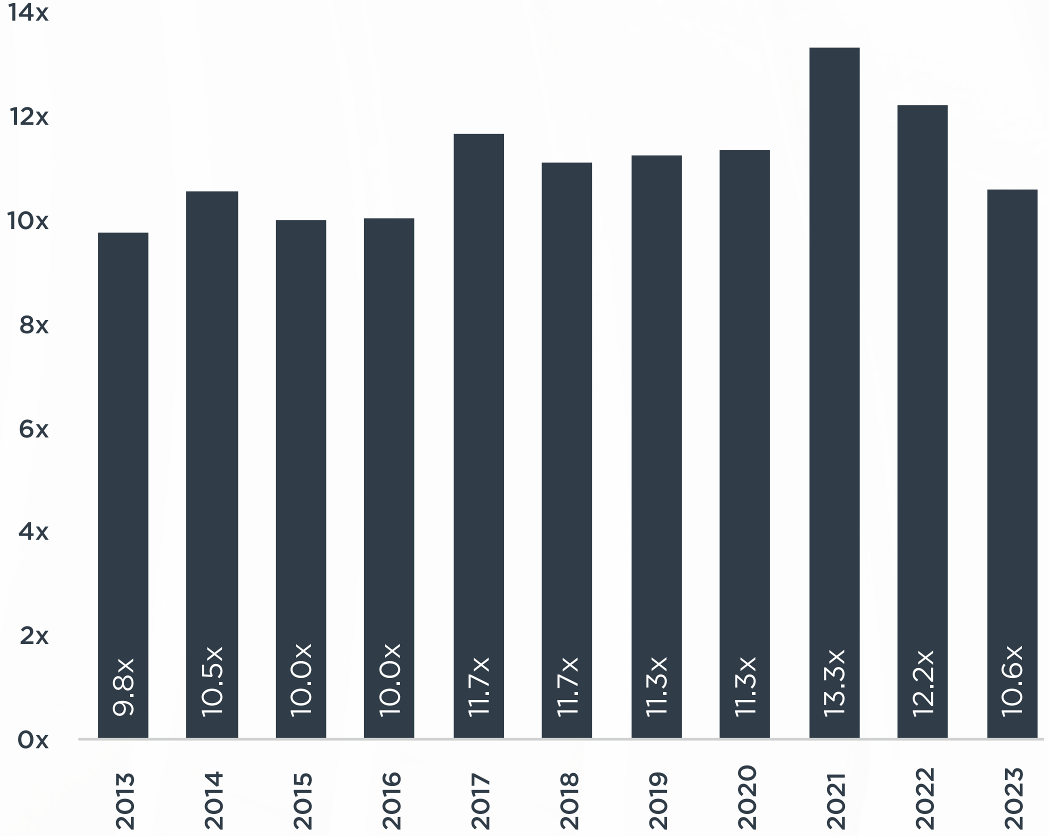


Source: *S&P Global*

Private Market Valuations

- Globally, valuations are still adjusting down from their 2022 peaks, as a result of higher inflation, interest rates and volatility.
- Deal multiples were down 28.9% from their peak across North America and Europe in Q3 2023, which make up over ~75% of global M&A activity.
- Overall, with an urge to deploy excess capital and stretching holding period, the bid-ask spread has narrowed and sellers are receptive to lower valuations and discounts.

Global PE Median EV/EBITDA Multiples



Source: *PitchBook*

Notes on Investment Playbook

Adopt a cautious approach to leverage

- Leverage is less likely to be as big a lever of value creation than in 2010s.
- High cost of capital requires adjustments in strategy and expectations including a higher hurdle rate for new investments.
- Small deals and carveouts have seen a rise recently. This is amplified by greater equity contributions making smaller deals more attractive.

New growth catalysts and M&A's are crucial

- M&A will support local businesses to escape this relatively low growth backdrop. It is also important to consider divestments.
- New catalysts are important when post pandemic drivers are fading, especially for businesses which track the country's GDP growth.
- Operational improvements through tech and digitization could be a game changer going forward. As per a recent Morgan Stanley study, AI-driven productivity could add 30 basis points to next year's net profit margins for S&P 500 companies.

Widening geographic exposure

- Over dependence on the local economy could limit growth headroom. But exploring unchartered markets is as risky as ever. Apart from the usual risks of repatriation, governance and currency; new risks such as rapid policy changes to benefit local investors, windfall taxes and sanctions have emerged.
- Therefore a compelling premium over our home country's advantage is required.

Acquisitions should reflect policy direction and geopolitical reality

- Countries are readjusting policies to reflect the new geopolitical reality such as shifting supply chains, securing access to resources, etc.
- For the UAE, aligning with long term government economic policy can offer similar effects of investing in mega trends, cutting through short term volatility.

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