Market Update – February 2024

I have reconciled the fact about US inflation as follows; we have different measures -CPI, PCE, super core, trimmed mean etc. I generally take what is closer to 2.00% and conclude that life is good. If one must exclude several line items, even though they represent survival, I will do so to ensure that my disinflationary view is validated. Apologies for my ranting, but that's the commentary that one gets to see when US inflation numbers are printed, we have so many measures and it leaves a very confused wake. My conclusion is, there is no inflation, bonds will rally, and life is good.

On a serious note, the latest super core (services excluding property) measure ticked up slightly on year-on-year basis. The trimmed mean also did not offer comfort. So, I prefer to be the proverbial ostrich and bury my head in the sand when it comes to inflation. Markets seem to be a bit sanguine about goods inflation as well, considering the shipping related impact. I would suggest that one takes a views the disinflationary pressures with a hawkish eye as the last mile seems to stretch a bit. The FED may be forced to stay higher for longer, however, this does not change the existential question on duration exposure – it still has value.

The Nvidia story is much like Alice falling down the rabbit hole into Wonderland. They clearly seem to be pushing the boundaries in the realm of computing and the only limit to what we can achieve with GPU's is probably our own imagination. Anyway, I don't have the deep domain knowledge to comment on Generative AI, but clearly the runway seems long. The way I see the world shaping is as follows- over the next few years, global productivity climbs higher and works it way in reducing inflation across sectors. There exists a possibility that unemployment will also rise, with a rise in productivity.

There exists a spectre that Trump may be back at the helm of affairs. This probably means we need to reboot inflation and call it Inflation 2.0. We are probably going to see the following pan out like his tenure of 2016-2021. First and foremost, we could see tax cuts for individuals and corporations (the earlier one was TCJA of 2017). Trade policies are going to get upended; we may have tariffs across geographies, which means the cost of goods could go up. There exists a possibility that infrastructure spending would be hastened, again pushing US GDP and stocks into a higher trajectory. All of this comes with the necessary evil, inflation.

Every nation's GDP is driven by four components: consumption, government spending, investment, and net exports. The United States' structural economic problems are primarily focused on the investment and net exports growth drivers and associated "offshoring drag" and "trade deficit drag. For example, when a car company offshores new production facilities to Mexico, it both boosts the Mexican economy and reduces investment in this country, subtracting from future economic growth. This is the offshoring drag. Trump may look to realign corporate incentives so that it would be more profitable to invest in the United States.

With Nikkei 225 surpassed an unprecedented 40,000, proving that the deflation dragon seems to have been slayed for now. We are looking at a potent combination of a rising markets and probable appreciation of yen down the line (BoJ policy driven). I think, it is safe to say that these markets will offer competitive risk adjusted returns.

Sounding like a broken record, China's path to prosperity is still opaque. We have heard the emphasis on "high quality development", which implies a focus on R&D, high-tech manufacturing and green energy but such developments require access to leverage and AI, which at this moment in time, China remains disadvantaged. With the US showing no inclination to share AI technology, China's 5% GDP growth is expected to remain a mirage.

Indonesia is eyeing a GDP growth of 8% in the next five years, with an emphasis on fiscal prudence. Inflation is comfortably sitting at 2.75%, within the Central Bank zone. This is probably a country to keep an eye on.

UK is an awkward situation on the economic front, to put it mildly. With domestic inflation in services and wages proving sticky, a probable tax cut would make it hard to cross the last mile for inflation. One would need to push the first cut a bit forward, probably looking at Q2 end of Q3 beginning.

When the Fed embarked on its first tightening campaign in decades, fears that the flow of credit could be disrupted were seen as a moderating influence on policymakers. A high-grade US bond spread above 150 bps was viewed as a level that might prompt the Fed to take its foot off the accelerator — but that level has barely been tested. The New York FED's credit stress gauge seems to indicate smooth markets. My take is that, with erstwhile structures like PIK and a second lien coming back into fore, spread differentials within the HY space narrowing, a hard landing could upend the cycle.

Fund Positioning & Deployment Strategy

Data as of end February 2024

Global Sukuk Fund

The Fund remains well diversified will continue hold positions at this level for the foreseeable future. We have slightly increased exposure to sovereigns to protect the spread widening from the geo-political tensions in GCC. We continue to focus on relative value opportunities from a spread perspective and are looking to participate in new issuances, based on the attractiveness of the pricing.

	1M	3M	6M	1YR	S.I.*
Global Sukuk Fund	0.00	2.62	3.24	4.37	1.18
Sukuk Peer Group*	0.22	2.23	2.42	3.33	(1.50)

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. *Peer group data source based on available data for liquid global sukuk funds managed out of the Middle East: FE Analytics, equally weighted against each constituent (USD share class).
*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. Source: Bloomberg and Aditum Investment Management Limited, USD terms, bid to bid, income reinvested.

KEY METRICS	
Fund Size (US$m)*	102.74
Number of Holdings	34
Weighted Ave. Yield to Maturity*	5.99%
Weighted Ave. Modified Duration*	6.4
Weighted Ave. Credit Rating (best of 3)	BBB-
Weighted Ave. Credit Rating (worst 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 is well diversified across different geographies and remains overweight the US in order to benefit from market beta with special emphasis on the US tech sector. The Fund is well positioned for protection on the downside, where approximately 70% of its positions are investment grade. The idea is to capture rates beta rally through IG quality assets (as credit spread beta is much lower for IG bonds), hence we continue to tread c. 11.4 years on duration.

	1M	3M	6M	1YR	S.I.
Global Alpha Fund	(0.92)	3.10	4.16	-	4.10
Benchmark*	0.23	2.93	3.04	-	4.04

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. Source: Bloomberg and Aditum Investment Management Limited, USD terms, bid to bid, income reinvested. *JP Morgan EM Bond Fund Source: Bloomberg and Aditum Investment Management Limited, USD terms, bid to bid, income reinvested.

KEY METRICS	
Fund Size (US$m)*	45.44
Number of Holdings	32
Weighted Ave. Yield to Maturity*	6.39%
Weighted Ave. Modified Duration*	11.4
Weighted Ave. Credit Rating (Worst of 3)	BBB+
Weighted Ave. Credit Rating (Best of 3)	A-

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

Aditum Target Maturity Fund 2025

The Fund is currently drawn down on LTV at 57% with the number of holdings straddling between 35-40. The Fund continues to remain overweight Indonesia and India and is gradually increasing exposure to LATAM, given the pockets of opportunities in these areas.

	1M*	2M	3M	6M	1YR	S.I.	Dividends SI*
ATMF 25	0.34	(0.11)	3.88	4.32	1.15	(29.63)	20.00

*The performance is calculated from B(inc) USD share class since inception 14 June 2021.
Past performance is not an indicator or guarantee of futre 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.

KEY METRICS	
Fund Size (US$m)*	69.72
Number of Holdings	36
Weighted Ave. Yield to Maturity**	7.55%
Weighted Ave. Modified Duration	1.8
Weighted Ave. Credit Rating (Worst of 3)*	BB
Weighted Ave. Credit Rating (Best of 3)*	BB+

*Including leverage
**Unlevered

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