Shaping the Future of Investments

Artificial Intelligence and the Interest Rate Environment

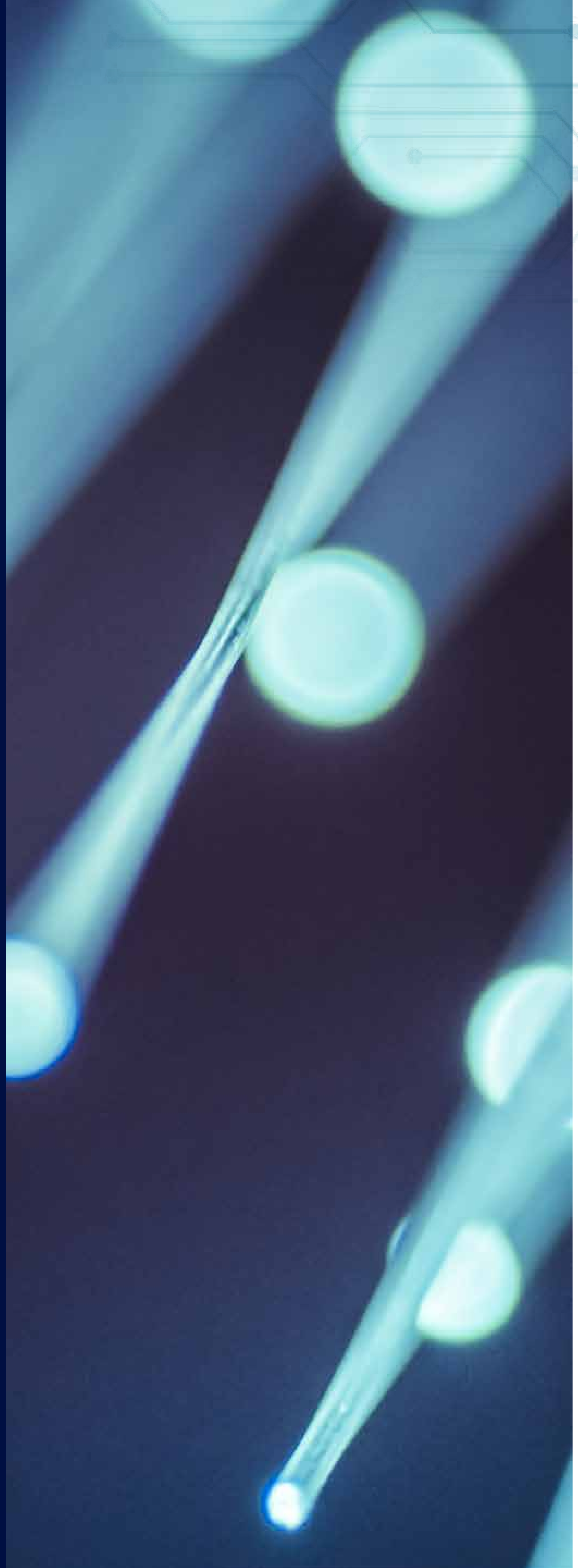
بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

Table of contents

“AI is revolutionising industries, unlocking new efficiencies and creating new opportunities in both established and emerging markets. Meanwhile, changes in central banks’ interest rate policies are redefining the cost of capital, influencing asset allocation and investor sentiment.

Amid this also lay boundless opportunities. At FAB, our mission is to empower our clients with forward-looking insights and adaptive strategies to navigate these dynamic markets. By capitalising on innovative investment solutions and our research on macroeconomic trends, we aim on innovation and macroeconomic trends, we aim to help you transform today’s challenges into tomorrow’s growth.

This report is designed to equip you with actionable perspectives and strategies to protect your capital and achieve your performance goals. Together, let us shape a future defined by progress, opportunity, and At FAB we are your wealth partner helping you shape your financial future.”



Foreword Message

Michel Longhini
Group Head of Private Banking

As we step into 2025, the global investment landscape continues to evolve at an unprecedented pace. Transformative forces, include the rapid advancements in artificial intelligence and shifting central back policies, are reshaping industries and financial markets alike.

Focused Insights

Artificial Intelligence:
Is this Different from Previous Tech Booms?

Abhishek Shukla – Head of Investment Research, Asset Management
John Faris – Executive Director FAB Asset Management
Pankaj Sharma – Director, Investment Research, Asset Management

Artificial Intelligence (AI) is no longer a futuristic concept. It is reshaping industries, economies, and our daily lives. From revolutionising healthcare to driving financial innovation, AI's influence spans far and wide. By 2030, this transformative technology is expected to contribute an astonishing USD 15.7 trillion to the global economy, making it one of the most significant drivers of growth in modern history.

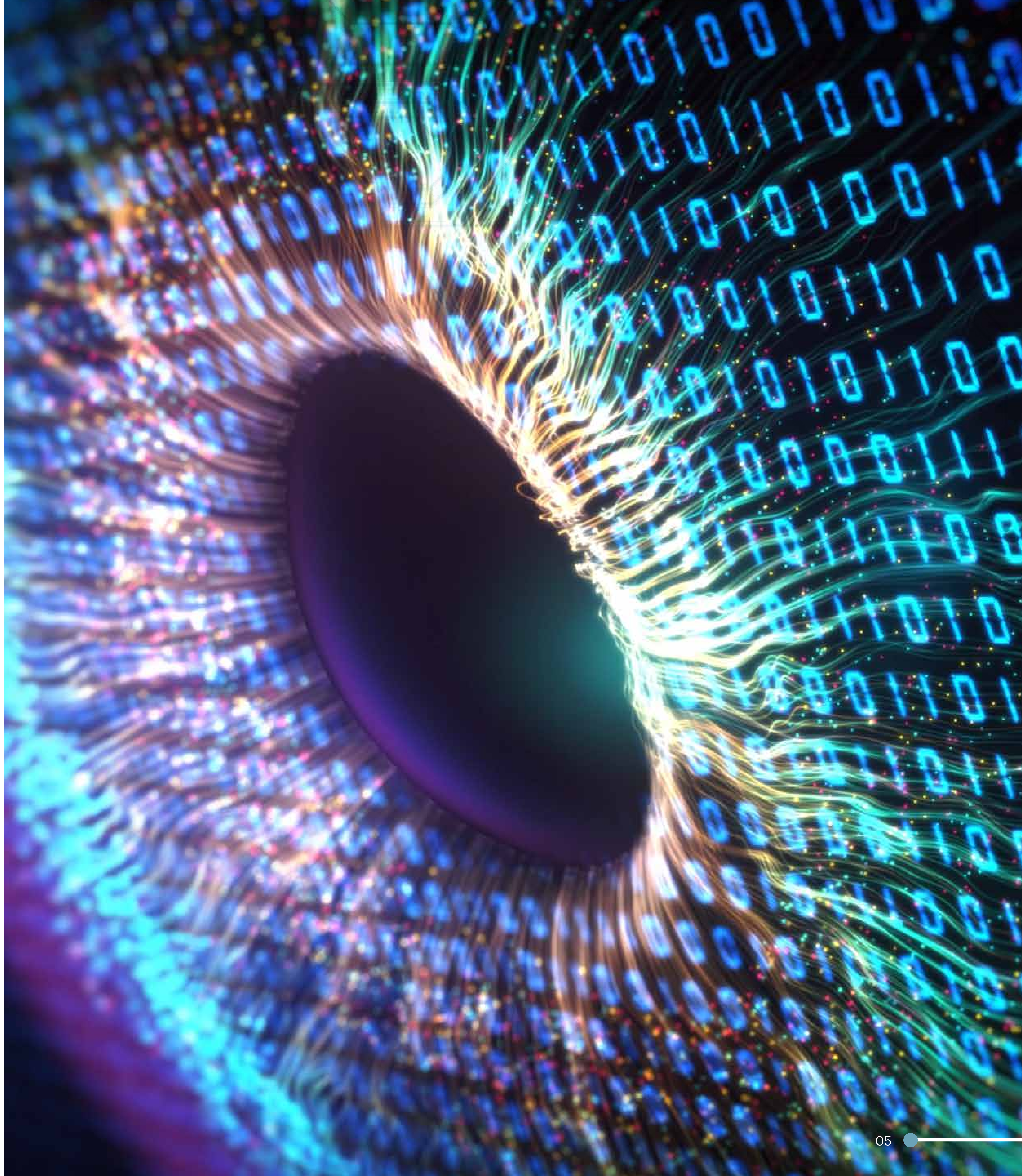
At its core, AI enables machines to perform tasks traditionally requiring human intelligence, i.e. problem-solving, decision-making, and learning from vast datasets. As organisations across the globe embrace this technology, they are unlocking new opportunities to innovate, compete, and thrive.

This article delves into AI's profound impact on industries, its role in reshaping financial services, and the investment potential it offers as we progress into the second half of the decade.

AI Across Industries

Artificial Intelligence (AI) is revolutionising industries worldwide, offering innovative solutions and delivering tangible benefits in efficiency, productivity, and competitiveness. From automating repetitive tasks in customer service to optimising supply chains in manufacturing, AI is enhancing operational efficiencies and driving innovation. In healthcare, AI is transforming the traditionally lengthy and costly process of drug discovery, while in retail, AI is improving inventory management and personalising customer experiences. These advancements demonstrate AI's transformative potential across diverse sectors, helping organisations adapt and thrive in an increasingly technology-driven landscape.

- AI is transforming key sectors in the following ways: Within healthcare, AI is being used to process vast amounts of medical data to enable early disease detection, improve



diagnostic accuracy and accelerate drug discovery, thereby transforming patient care.

In financial services, AI is aiding with risk management, providing customised client solutions, and enhancing compliance through real-time analysis of vast datasets. The manufacturing sector is leveraging smart factories, driven by AI, to optimise supply chains, enable predictive maintenance, and increase production flexibility and efficiency. AI is powering personalised and adaptive learning experiences, making education more accessible and tailored to individual needs. Though its own energy consumption is growing, AI continues to be an important support pillar for sustainability, by analysing energy consumption, optimising resource usage, and aiding the development of green technologies. Industries like logistics and retail leverage AI-powered automation to increase productivity and reduce labor costs while enhancing operational precision. Precision farming driven by AI boosts crop yields, reduces waste, and promotes sustainable agricultural practices.

AI in the Financial Services Industry

- The financial services sector has long embraced emerging technologies to gain a competitive edge, but the adoption of AI has elevated this to unprecedented levels. AI is not only streamlining operations but also reshaping how institutions manage risk, interact with customers, and execute trades.

Transforming Risk Management:

AI is revolutionising risk management processes. By analysing both structured and unstructured data, AI offers unprecedented accuracy and speed in identifying risks, often detecting issues that conventional methods might overlook. Advanced AI tools combine insights from a wide range of sources, including financial records, customer behavior patterns, economic forecasts, and media sentiment, to provide a unified and forward-looking perspective, thus enabling institutions to strengthen their early-warning capabilities. safeguarding customer trust and protecting institutions from

- **Customer Onboarding, Know Your Client (KYC)**: In the financial services sector, a seamless customer experience is critical for success. Traditionally, onboarding new clients was a cumbersome, time-consuming, often involving manual handling of applications and verification steps that led to frequent delays. . AI-powered solutions have transformed this process by introducing automation and enhanced security. Customers can now securely upload the required information, which is validated and verified in real time by AI systems, significantly reducing wait times and simplifying onboarding. By automating, systems are not only improving operational efficiency, but also contributing to an overall positive customer experience. Digital identity solutions are also playing a role in fraud prevention. By ensuring that only verified individuals can access accounts, these tools provide an extra layer of security, building trust and safeguarding both customers and institutions.
- **Bespoke Customer Service Optimisation**: AI is enabling highly personalised experiences by analysing vast amounts of customer data, such as spending habits, risk appetite, and investment patterns, to deliver tailored recommendations that align with individual needs. AI-powered chatbots and virtual assistants are handling a wide range of customer requests, from routine inquiries like account balances to more complex tasks such as financial planning and investment advice. These tools provide round-the-clock support, significantly improving response times and enhancing the overall client experience.
- **AI Financial Trading Tools**: -While humans continue to play a vital role in trading, AI is increasingly transforming the process of managing financial instruments.. AI tools can analyse vast amounts of historical and real-time market data, thereby reducing research time and improving accuracy of findings. This is also aids risk management and lowers operational costs. One of the most notable advancements is in trading robot software, which enables firms to create and manage client portfolios autonomously. These AI-powered systems have made portfolio management a fully automated process, allowing institutions to optimise performance, respond swiftly to market changes, and provide tailored strategies for clients, all with minimal human intervention.
- **AI in Wealth Management**: AI is transforming asset and wealth management by automating tasks like research analysis and portfolio management, enabling advisors to focus on client engagement. By analysing large datasets, AI delivers personalised investment recommendations, reduces cognitive biases, and enhances decision-making. Studies show AI-powered funds outperform human-managed ones, offering greater efficiency, lower costs, and higher returns, signalling a profound shift in the industry's future.

AI in Islamic Finance

The Islamic finance industry has grown significantly in recent years, but its continued expansion has also introduced challenges. Traditional Islamic banking systems are increasingly under pressure to meet rising customer demands and maintain operational efficiencyin this digital age.

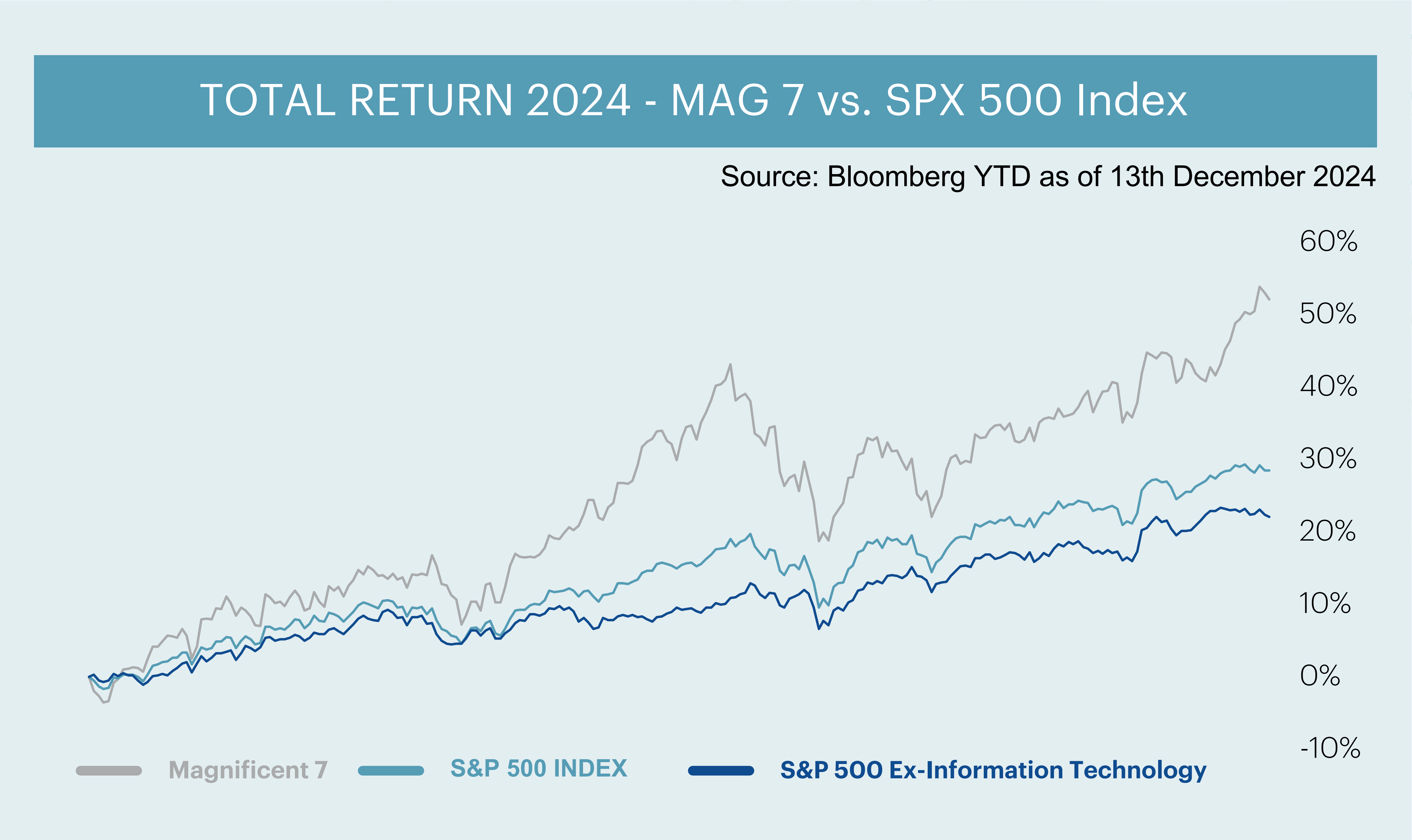
One of AI's most important applications in Islamic finance is Shariah compliance screening. Algorithms are programmed to ensure companies and financial instruments adhere to Shariah principles', thus automating what has historically been a very labor-intensive and error-prone process. By processing vast amounts of data with speed and accuracy, AI significantly enhances efficiency and compliance, enabling institutions to manage the complexities of the global investment universe more effectively.For AI to achieve its full potential in Islamic finance, a collaborative approach is essential. Shariah scholars, financial institutions, regulators, and AI developers must work together to ensure the successful integration of this technology, maintaining both the ethical and operational integrity of Islamic finance.

Investment Opportunity: Monetisation Paves the Way for AI Expansion

In recent years, AI has evolved from a niche element in corporate strategies to a top priority for Chief Investment Officers (CIOs) as they shape future investment strategies. For AI-focused companies, this shift is translating into significant top-line growth—a trend that has captured the attention of global investors. The impact of the largest AI operators has been so profound that they are collectively referred to as the "Magnificent 7". This group, comprising of Nvidia, Alphabet, Amazon, Apple, Meta, Microsoft, and Tesla, has propelled U.S. equity markets to record highs in 2024, driving similar growth in other major international stock markets.

The ripple effect of this exponential growth is being felt throughout the AI ecosystem. Companies offering AI-driven services, such as consulting firms and technology providers, are experiencing significant demand as businesses seek competitive advantages. Cloud computing, and software infrastructure companies are also capitalising on the AI wave, thereby witnessing robust growth. Even legacy companies are reinventing themselves to seize this opportunity; for example, IBM, a major technology firm, has successfully rebranded itself as a cloud and AI-focused software services provider, marking a significant resurgence.

The development of proprietary Large Language Models (LLMs) is gaining traction across industries as organisations



leverage unique datasets to create bespoke AI solutions. In finance, these models are being used to enhance efficiencies, improve decision-making, and streamline market analysis. Similarly, the defense and cybersecurity sectors are developing purpose-built models to address specific threats, enabling faster response times and more effective action in high-stakes environment. If AI adoption continues to grow at its current pace, the developments of new infrastructure will be essential to meeting rising demand. This need is already reflected in the sharp increase in capital expenditures by market participants, particularly in data centers designed to support GPU (Graphic Processing Unit) clusters.These clusters are purpose-built for AI workloads, offering scalability and enhanced capabilities to handle future demand, which makes them an increasingly attractive investment opportunity.

The rapid expansion of AI infrastructure comes with a significant caveat, the substantial power consumption of data centers. Currently, data centers account for an estimated 1%-1.5% of global electricity usage, and projections suggest this could rise to over 5% by 2030. This trend is already driving increased investment in global energy production technologies and power management solutions to address the growing demand. For example, some organisations are exploring the use of nuclear power to support energy-intensive AI operations.

Key Challenges in AI Implementation

While offers numerous benefits, its implementation comes with significant challenges. Addressing these challenges requires the establishing robust rules and regulation to ensure responsible and effective utilisation. Some of these key challenges include:

- **Data Privacy Protection**: AI applications can pose risks to data privacy, particularly in surveillance systems. The critical question is how to balance the use of using AI to capture data while maintain ethical considersations and maintain human rights.
- **Quality of Input Data**: AI relies on machine learning algorithms that process vast amounts of input data. However, if the data is biased or inaccurate, the algorithms will produce distorted or unreliable results. For example, biased financial transaction data could lead to incorrect risk assessments or flawed credit scoring, potentially impacting loan approvals and investment decisions.
- **Integration with Existing Processes**: To maximise AI's benefits, seamless integration with existing systems is crucial. However, this requires skilled personnel, which is currently in short supply.
- **Power Consumption**: AI systems demand significant power for high-performance computing in data centres. Currently, AI consumes an estimated 1% to 2% of global electricity, with projections suggesting this could rise to 3% to 4% by 2030. To meet this growing demand, innovative energy solutions, including nuclear power, are being explored. **Cybersecurity Risks**: AI systems are vulnerable to cyberattacks. Malicious actors can exploit these technologies to bypass security measures or misuse them for harmful purposes.
- **Misinformation and Deepfakes**: Generative AI can create convincing but false content, such as fake news or deepfakes, which poses a significant challenge to trust and credibility.
- **Building Trust**: AI implementation requires capturing and storing vast amounts of data securely. Transparent and ethical practices are essential to building trust and ensuring that the AI lifecycle benefits all stakeholders.
- **Job Displacement**: The automation of routine tasks by AI may lead to job losses in some sectors. Workforce reskilling and upskilling are essential to prepare individuals for new roles and opportunities.
- **Regulatory Gaps**: The rapid adoption of AI often outpaces the development of supporting regulatory frameworks. Many industries either lack regulations or operate under outdated ones, which can lead to inconsistent practices and heightened risks. To address this, collaboration among regulators is essential to establish comprehensive and forward-looking legislation.

Why is this Different from Previous Tech Booms?

AI related stocks have significantly outperformed US and global indices over the past two years, which has drawn comparisons to the dot-com bubble of 2000. However a closer analysis reveals key differences. Leading AI companies are trading at more reasonable valuations, with a price-to-earnings multiple of 34x compared to 59x during the dot-com era, and growth expectations of 42% versus 30%. These metrics suggest that AI companies are better positioned to sustain their momentum.

Unlike past tech booms, the tangible applications of AI are already delivering measurable across industries, driving deal activity and mergers and acquisitions (M&A) as companies capitalise on opportunities within the AI ecosystem. This momentum is expected to attract further interest from investors seeking higher returns than those achievable in conventional markets.The US, and to some extent China, are likely to continue dominating global AI expansion and will benefit the most fromfuture investment flows. However, other economies, including the European Union, UK, Japan, and India ,are carving out their own niche expertise in certain aspects of the AI landscape which should broaden the market as it matures.

AI's potential for economic impact remains a key draw for investors. PwC estimates that AI could contribute USD 15.7 trillion to the global economy by 2030, underscoring its transformative role. Often referred to as the next industrial revolution, AI is already reshaping industries and societies despite being in its early stages. While challenges remain, the optimism surrounding AI's potential and long-term benefits continues to drive investor confidence.

Global Macro Outlook 2025

On the Lookout for the Black Swan

December 2024

Simon Ballard – Chief Economist, Market Insights & Strategy, Global Markets

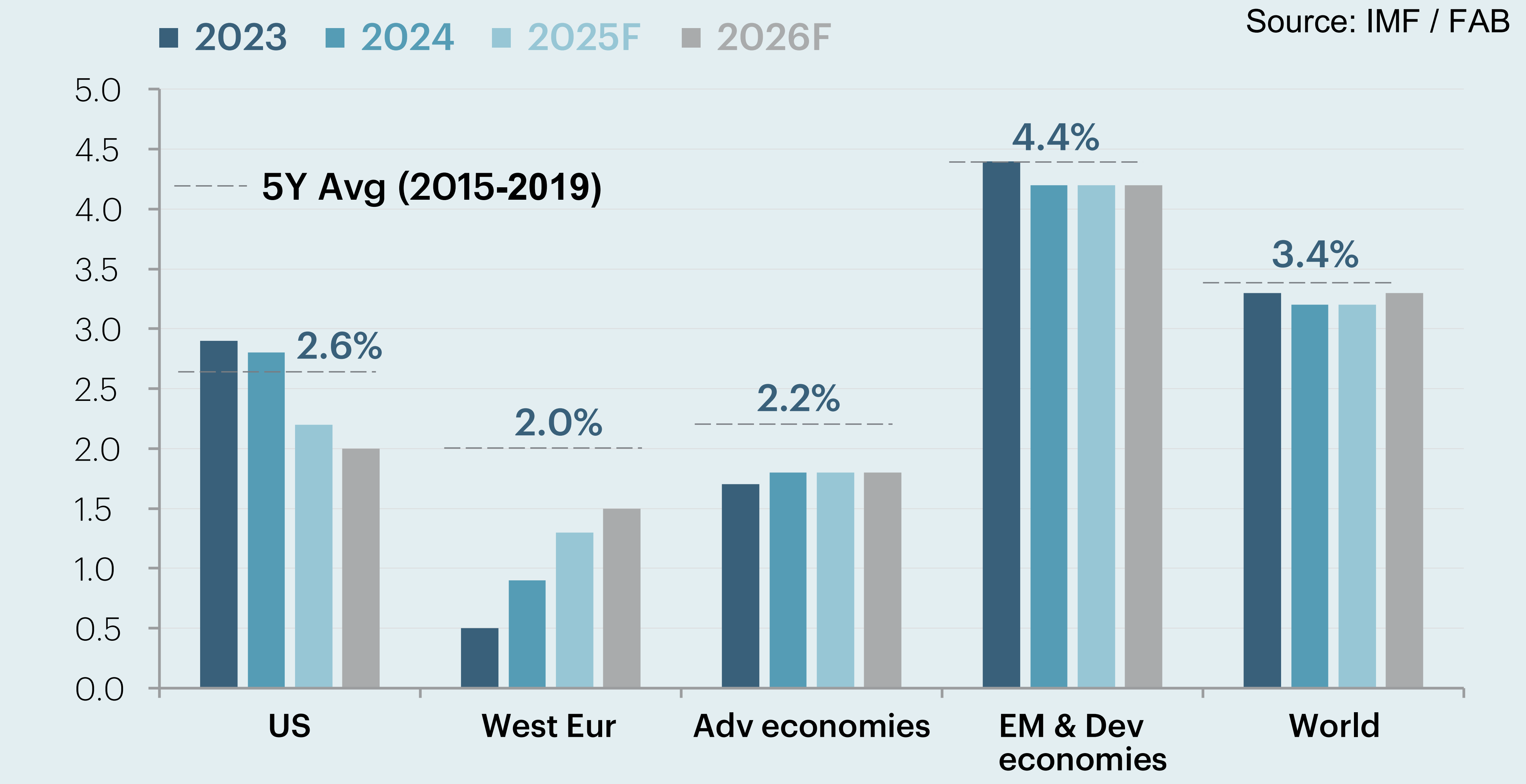
Global growth remained resilient throughout much of 2024 as robust job creation and solid household finances continued to drive consumer spending. Yes, there have been some recent setbacks in the global macro narrative, such as the net disappointing US nonfarm payrolls report for October, even after adjusting for hurricanes and strikes, and the poorly received UK budget, all of which have been a drag on sentiment. Furthermore, the market mood is being consistently tested by Japan's fragile political situation and ever-changing coalitions. And in China, we remind investors that the reflation path is proving to be anything but smooth.

Critically, though, the global economy has avoided slipping into recession during the disinflationary process, and a veil of optimism continues to shroud our outlook going into 2025. A key reason for such optimism on global growth is the dramatic inflation decline seen over the past two years, which will surely support real income, with price inflation having fallen quicker than wage inflation. At the same time, we would conjecture that disinflation is also a stimulant for aggregate demand because it encourages central banks to normalise monetary policy and, thereby, ease financial conditions.

However, under the constraints of what we perceived to be persistently elevated interest rates above the so-called 'neutral rate', which have been imposed over the past two years to address those surging price pressures and the post-pandemic inflation, leaving monetary conditions in net restrictive territory, macro and socioeconomic cracks are starting to emerge.

As a result of the latter, major central banks such as the Federal Reserve, the European Central Bank (ECB), and the Bank of England (BoE) began a tentative reduction of policy rates in the latter stages of 2024. This process will have further to run this year in 2025. However, with inflationary pressures still sticky to the upside and likely to be aggravated by the policy initiatives of the new administration of US President Donald Trump, global rates seem set to remain tight for a while longer.

IMF GDP: The cost of restrictive policy



As a result, we forecast a slowdown in global generic economic growth conditions as we head through 2025, predominantly driven by a cooling labour market and the consequences of high interest rates — a view shared by the likes of the Economist Intelligence Unit.

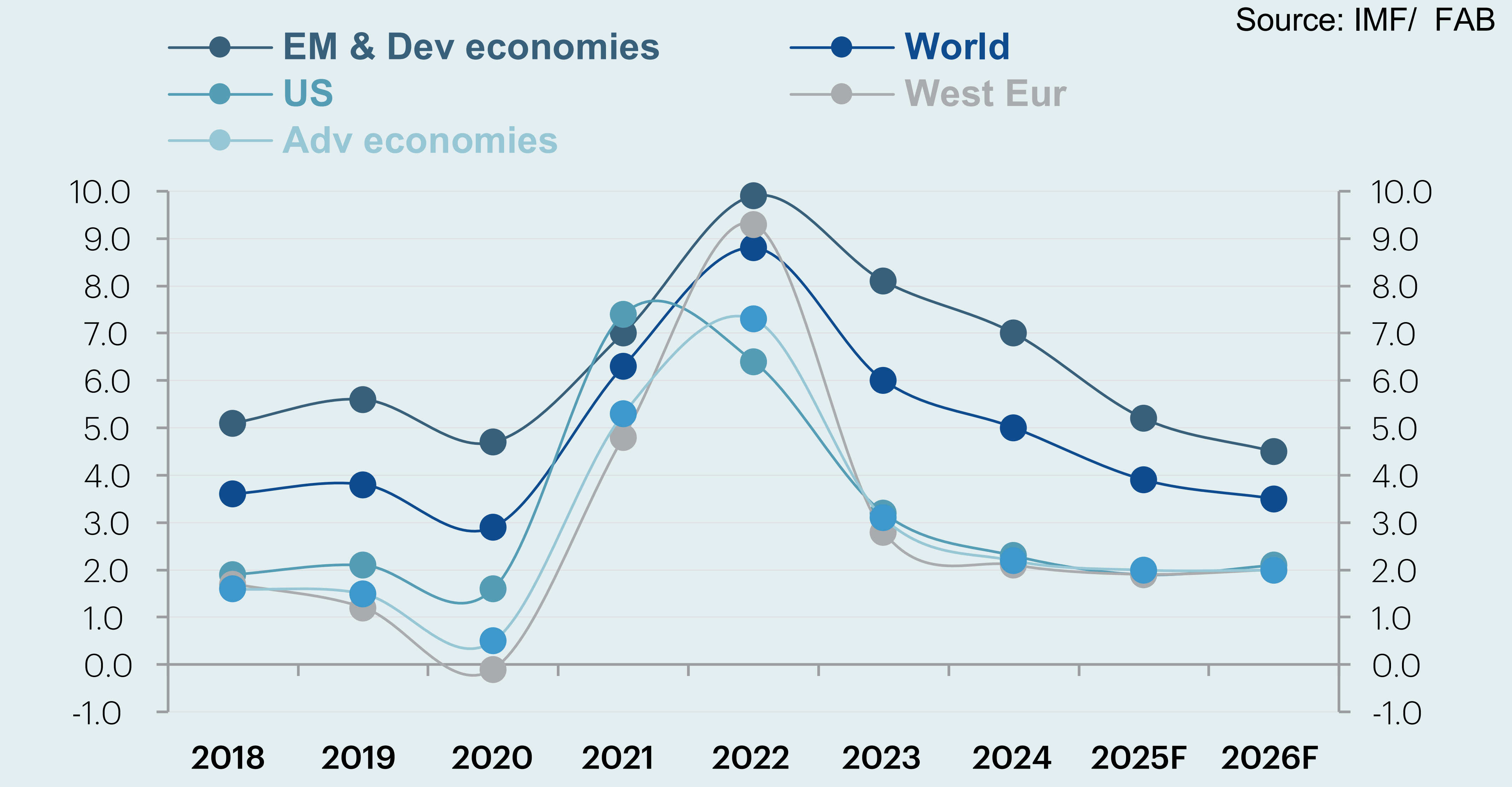
Indeed, the restrictive nature of monetary policy is already beginning to manifest itself and show itself in delinquency rates. A simple regression analysis of the US high-yield corporate bond index and the credit card delinquency rates of US banks shows the cost of leaving interest rates too high — and in economically restrictive territory — for too long. Faced with the aforementioned stickiness to price pressures, though, and the prospect of the inflationary aspect of Trump's threatened trade tariffs and promised tax cuts, the Fed and other central banks will need to tread a very careful monetary path over the course of the coming 12 months.

According to the latest edition of the International Monetary Fund's (IMF) World Economic Outlook, published on 22 October 2024, it expects global growth to remain stable yet underwhelming. We would wholeheartedly concur. Moreover, in line with our house view, the IMF suggests that as disinflation continues, a smooth landing should be within the reach of the Fed and US policymakers.

As alluded to above, global price pressures remain elevated. Still, in the bigger scheme of things, we would conjecture that the global battle against inflation has largely been won over recent years. That said, the new Trump administration's threatened trade tariffs and tax-cutting initiatives will keep the inflation flames burning over the course of this year if introduced as per his election campaign and manifesto.

After peaking at 9.4% year on year in the third quarter of 2022, we expect headline global inflation (consumer price inflation) to reach 3.5% by the end of this year.

IMF CPI: Sticky above target



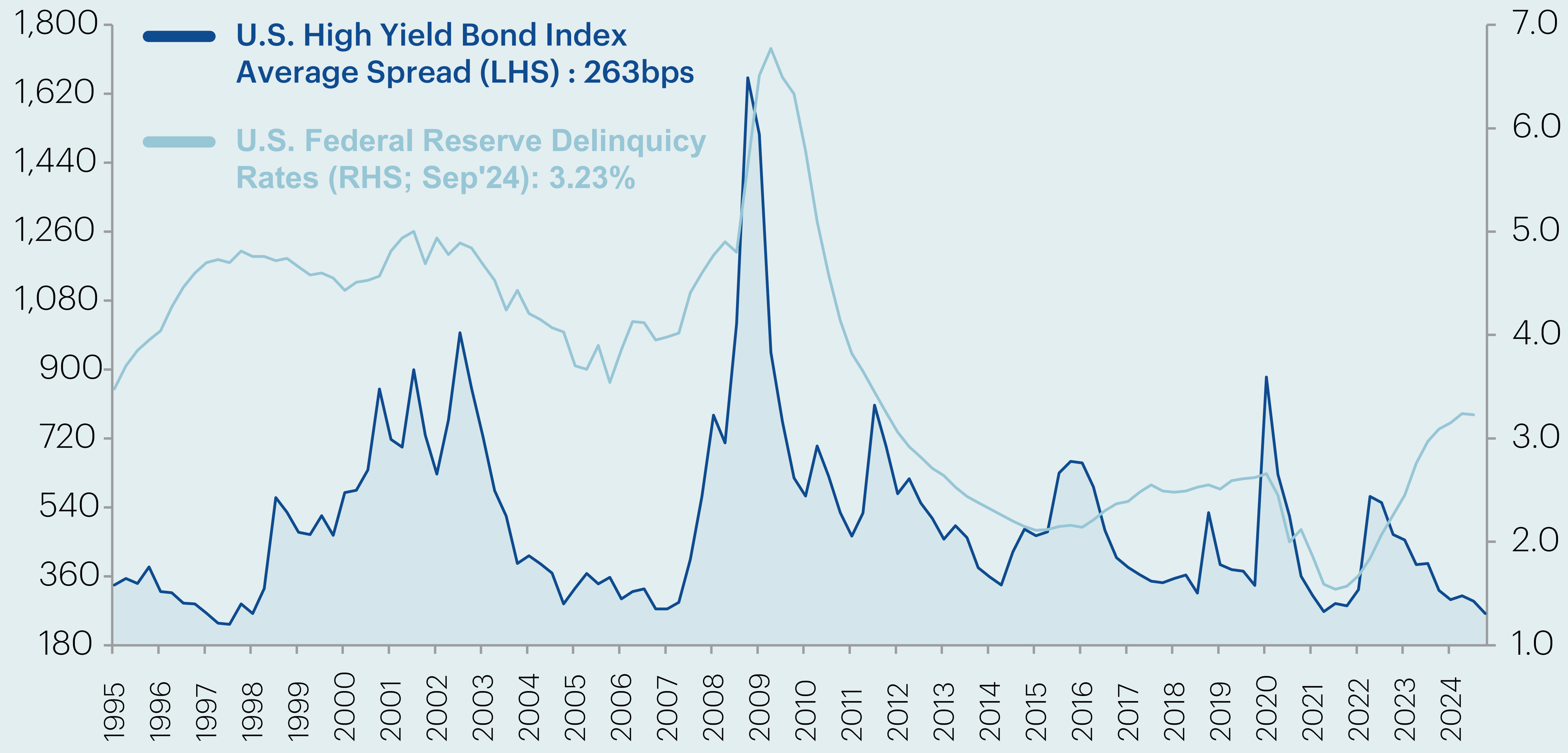
According to IMF data, such a result would be well below the average level of 3.6% between 2000 and 2019. Meanwhile, we expect global economic growth to come in at around 3.2% this year, a similar rate of expansion as seen in 2024. The IMF reduced its forecast for global growth this year to 3.2% from its earlier forecast of 3.3%. Within this status quo for 2025, though, several low-income developing countries have seen sizable downward revisions to their growth outlooks, while other developed market economies, namely the US, have seen their economic growth outlooks expanded for 2025 and 2026.

That said, we maintain a cautious stance on the balance of risks, which we believe remains tilted to the downside. Such risks include geopolitical tensions that could flare up at any moment, potential financial market volatility, the persistent spectre of renewed tightening of financial conditions, the ongoing problems that are afflicting China's property sector, and the government's aspirations of transitioning from an investment-based economy to a consumption-driven one. Elsewhere, we remain cognisant of the threat to global macro conditions from the headwinds buffeting global trade and those stemming from rising protectionism and — as the IMF would phrase it — continued geoeconomic fragmentation.

Meanwhile, in Europe, our broad view for this year remains one of euro weakness from an interest rate differential and trade tensions perspective. In this context, we anticipate further monetary policy easing by both the ECB and the BoE in the coming quarters. However, whether the ECB stops easing once it gets to 2.5% or pushes down toward 2.0% as is currently being priced by the futures market will depend on the internal debate in Frankfurt over the level of the real neutral rate with inflation stable at 2%.

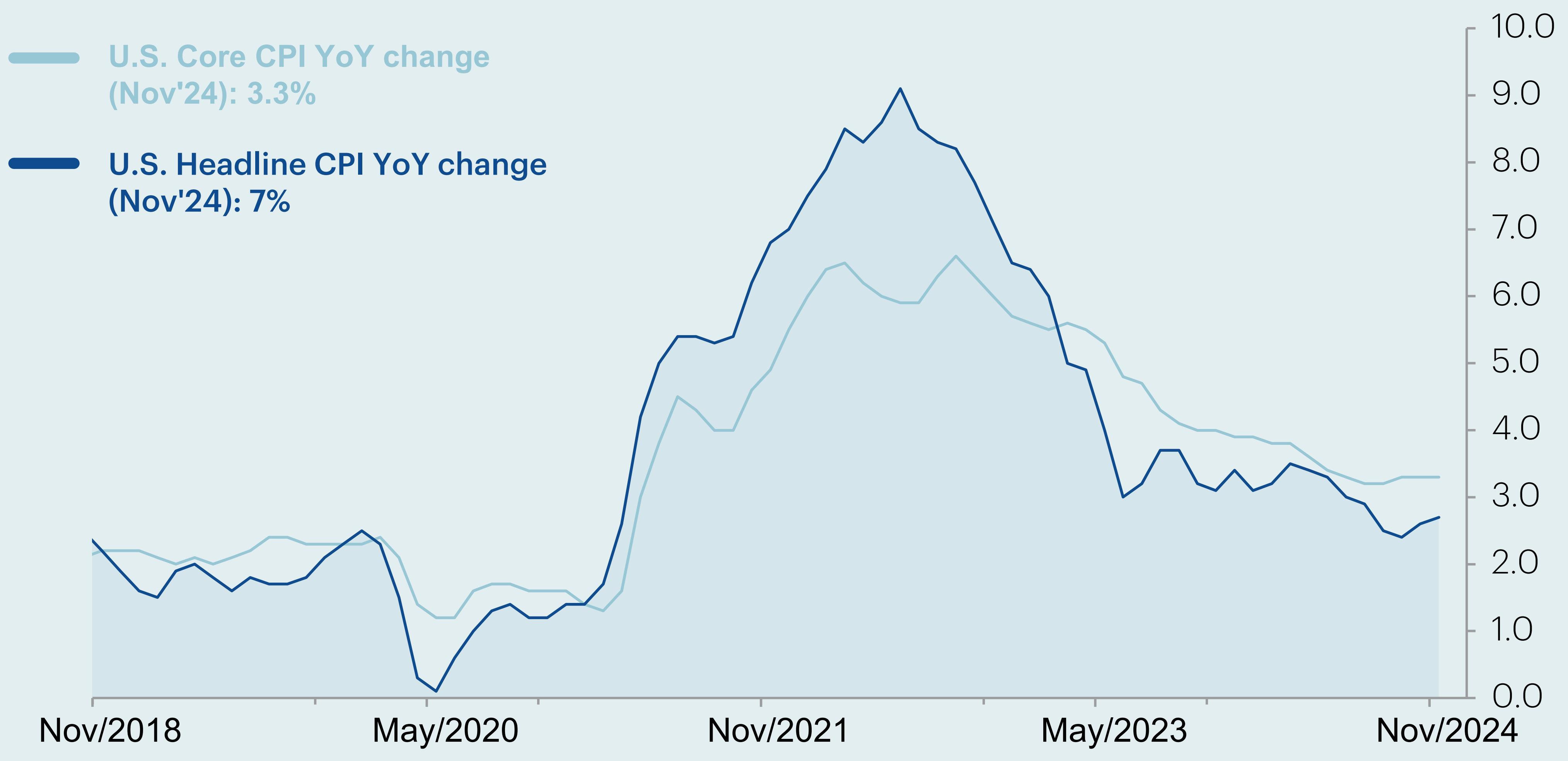
Restrictive policy constraints

Source: Bloomberg/FAB



Opening the rate cut door, but only marginally

Source: Bloomberg/FAB

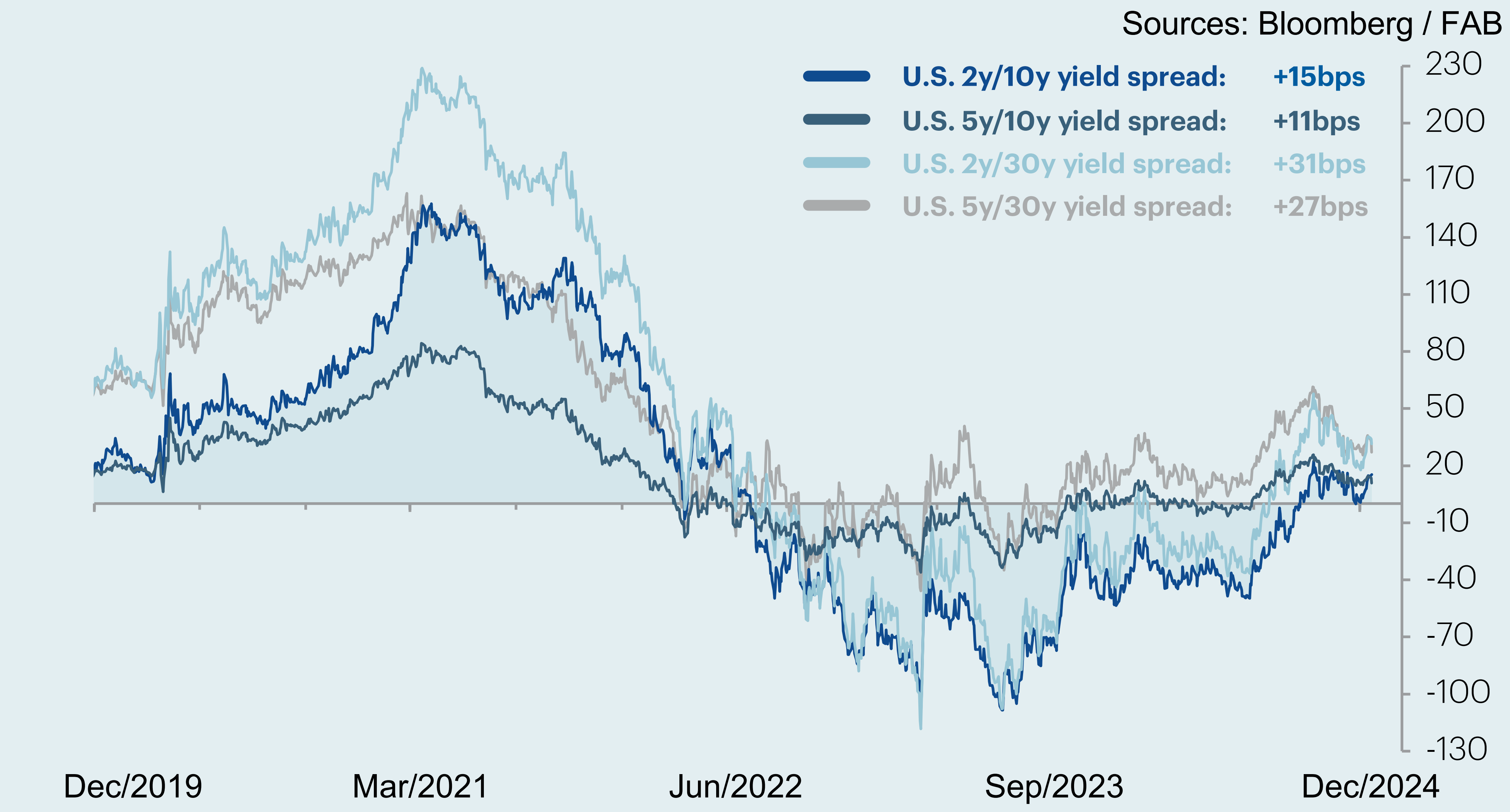


Any meaningful disruptions to the disinflation process would test central banks' ability to pursue their monetary easing bias, creating fiscal policy and financial stability challenges. We agree with the IMF that "amid numerous threats, it is time for a policy pivot. With monetary policy easing, shifting gears on fiscal policy to ensure sustainable debt dynamics and rebuilding of buffers is appropriate. Advancing structural reforms to boost long-term growth and accelerating the green transition remains as necessary as ever".

US Macro / Rates Outlook

While the US economy is starting 2025 on a relatively firm footing, with the two elements of the Fed's dual mandate — low (but albeit sticky) inflation and a robust labour market — looking reasonably healthy, the transition to the second Trump administration is casting a veil of uncertainty over the outlook. Indeed, the US economy continues to look resilient as it has in recent quarters, with the latest GDP growth rate trending close to 3% and the unemployment rate at a respectable 4.1% as we enter 2025.

The A Team - We love it when a plan comes



Our constructive view on US economic growth prospects for the year ahead is also founded on our expectation that US productivity growth will remain significantly stronger than in other developed economies. As a result, we also expect to see a widening US/euro area interest rate differential, fuelled by differing evolutions in regional labour productivity. For example, labour productivity in the US has increased at a 1.7% annualised rate since late 2019, a clear acceleration from the pre-pandemic trend of 1.3%. By contrast, labour productivity in the euro area has grown at an annualised rate of only 0.2% over the same period, in a marked deterioration from the productivity growth rate of 0.7% before the pandemic.

The Federal Open Market Committee (FOMC) kicked off the US rate reduction process last September with a 50 basis points rate cut and further 25 basis points reductions in November and December last year.

While we believe that the Fed could have easily justified leaving the fed funds target rate unchanged at the FOMC policy meeting on 18 December, the fact that it cut rates again by 25 basis points while signalling fewer rate cuts than previously forecasted for this coming year created a similarly net dovish outcome. Unsurprisingly, and as we have warned consistently, sticky inflation was cited by the Fed as the basis for the shift away from a more dovish stance.

However, honesty is the best policy for Fed chairperson Jerome Powell. Indeed, the Fed chairperson admitted quite bluntly that the central bank's 2024 year-end inflation projection had "kind of fallen apart". Subsequently, the new Fed dot plot outlook for US monetary policy now suggests only two further 25 basis point rate reductions this year. As such, the Fed's revised outlook is now in line with our previously outlined cautiously dovish expectations.

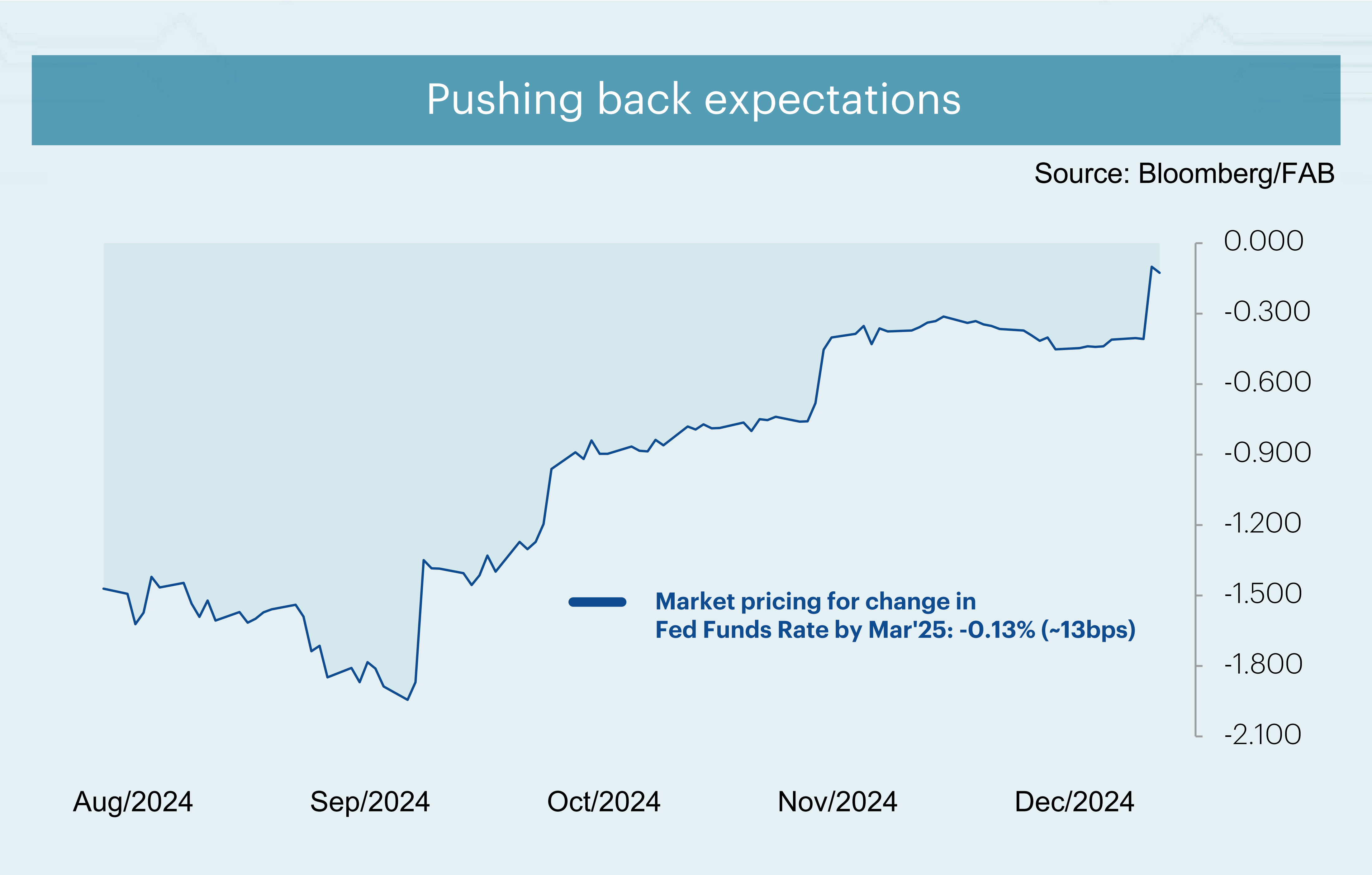
Moreover, we are cognisant of the potential inflationary impact of Trump returning to the White House, which could further shackle the doves on the FOMC. It is not inconceivable that if Trump proves to be as aggressive as he has threatened with his hawkish trade tariffs and fiscal stimulus, the Fed might yet choose to leave rates on hold — or even need to consider re-tightening in what we suggest could be 2025's black swan event — over the course of 2025.

As far as market reaction is concerned, a less dovish outlook for the Fed funds rate over the coming 12 months will continue to imply a higher yield structure for the months ahead. In turn, this less dovish outlook should also create an ongoing fillip for the US dollar while also weighing on the Asian currencies complex.

As we look ahead to the early months of 2025, the landscape will likely be characterised by the Fed being in wait-and-see mode as it waits for confirmation on whether Trump's fiscal and trade initiatives will be as aggressive as he suggested during his election campaign and how much of a hawkish inflation impact his fiscal and trade policies might have and, in turn, what negative effect that could have on the outlook for GDP.

Our back-of-an-envelope calculations suggest that Trump's proposed trade tariffs could reduce US GDP by as much as 0.3% this year and by far more in 2026 if more onerous tariffs are imposed. The flip side to this scenario is that the impact could be less severe if all the associated tariff revenues are fully recycled into fiscal easing (tax cut) measures.

From a Fed rates perspective, that leaves us with the broad expectation that the FOMC could now leave rates unchanged until at least March. Moreover, we anticipate a maximum of 75 basis points of cuts by the end of the year and that the eventual implied 'neutral rate' for fed funds will be no lower than 3.50% by late 2026.



This means no more than five 25 basis points rate reductions — an aggregate of 1.25% of easing — over the coming 24 months, which is a far cry from what the doves were demanding this time last year.

Back to Trump, though, and given what we know from his first term in office when he favoured lower interest rates to bolster the domestic US economy, we expect him to be similarly biased this time around. Indeed, we would conjecture that with — albeit only fragile — control of both the House and the Senate, we should be braced for an extension of his first-term tax cuts. In this respect, though, the market reacted positively back in November — as we believe it was right to do — to the news of Scott Bessent's nomination as Trump's Treasury Secretary.

In our opinion, Bessent, the CEO/CIO and founder of macro hedge fund Key Square, is a safe pair of hands on the Treasury wheel. While Bessent will surely back Trump's tariff and tax cut plans, we believe his background in financial markets will lead him to adhere to policies that favour sensible economic targets and market stability. We see him as market-savvy, likely sympathetic to market direction and sentiment, and conscious of the potentially damaging impact of headline-driven volatility. We do not see him as an individual who will be out to score disruptive political points. This being the case, we expect concerns over future inflationary pressures, worsening trade tensions, and generic market volatility to recede — at least a little — over the coming months.

Conversely, we are cognisant that unified Republican control will not necessarily be conducive to a model of policy restraint. Caveat emptor, therefore, the one key risk we believe global markets are currently overlooking is the hawkish implications of higher-than-expected US trade tariffs. If the latter surprise strongly to the upside, the resultant spike in inflationary pressures could result in the Fed needing to tighten monetary policy again — with an increase in interest rates — before the end of this year. This is not yet our base case forecast, but it is a clear and present danger.

Let us not lose sight of the weighted average tariff on all US imports is currently only 2%, but this could rise ominously as high as 17% under the plan outlined by

Trump on the pre-election campaign trail. Moreover, a more aggressive and penal trade tariff structure would certainly hit real (inflation-adjusted) disposable personal income via inflation and higher consumer prices. At the same time, any increased uncertainty and speculation of deepening trade tensions would only be a net negative influence on business investment.

At the same time, we recognise that a strategy driven by the inflationary combination of fiscal easing and trade tariffs will be diametrically opposed to any call for lower interest rates, as alluded to above. In this respect, we recall Trump's first term in office when he called for lower — even negative — interest rates to support US industry and the broader domestic economy. As such, if Trump is forced to dial back his rhetoric a little once he recognises this paradox, it could be that his bark will have proved to be more aggressive than his bite.

Therefore, from a Fed rates perspective, we now expect Powell to remain in the aforementioned wait-and-see mode until there is greater transparency and confirmation over what policies the new Trump administration will implement. Only then might the Fed feel comfortable committing to a future interest rate direction once it has clearer insight into Trump's policies and can model for the months and quarters ahead.

From an asset allocation perspective, this outlook suggests that Treasuries look reasonably well priced, albeit not cheap. Given the robust US growth outlook, coupled with the prospect of higher government debt issuance this year and rapidly rising deficits, if Trump extends all the tax cuts from 2017, we may see some renewed downside pressure on prices in the coming months.

Therefore, the bottom line for our US macro take on 2025 is that if the threatened trade war does not escalate further, the more positive derivatives from tax cuts, a friendlier regulatory environment, and improved pro-business attitudes should create a positive environment for risk asset performance as the year evolves and as we look further ahead to 2026. This suggests to us that, barring a more aggressive — and fully delivered — trade tariff and tax cut strategy from Trump — which could trigger a broader global trade war, his eventual actions are unlikely to change the broad contours of our cautiously optimistic global economic views. But we are cognisant that we must remain mindful of these potential black swans, or at the very least grey birds hidden within 'Trumponomics'.

European Macro / Rates Outlook

While the ECB and the BoE are sitting on the monetary easing locomotive, both European institutions' seats currently appear to be in a carriage well in front of the Fed. Given the relative health of the three economies, we believe that the ECB — and, to a lesser extent, the BOE — should move much more quickly than the Fed in the rate easing process, bringing the ECB's deposit rate to 2% by the middle of this year (2025). Such a rate differential outlook should help to underpin generic USD strength in the year ahead relative to both European currencies.

Growth dynamics have shifted significantly across the euro area in recent quarters, to the extent that in 2025 we may need to rethink conventional wisdom as to where the engine of eurozone economic activity really sits. At the very least, the picture of euro area economic growth is now far more uneven than it has been in recent years, with the implied engine of growth moving from the so-called 'core' to the 'periphery with the likes of Spain continuing to surprise on the upside, while Germany, in a technical recession, will have all its work cut out this year to avoid a more painful economic contraction.

As far as the impact of the US is concerned, even if China is the main focal point and target of Trump's new trade tariffs, Europe is unlikely to escape unscathed. We would also expect European growth to be affected by Trump's policies, if only because of the greater uncertainty his tariffs will create.

In terms of the euro area growth outlook, we expect real GDP growth for 2025 to register at around an anaemic 0.7%. Admittedly, there has been some recent improvement in spending data, which has been encouraging, but signs of any meaningful pickup in domestic demand and consumption remain fragile. On the back of this, we expect headline euro area inflation to average around 2% or slightly lower in 2025, and the 'core' measure of price pressures should recede from the recent elevated levels of around 2.7% to settle closer to 2.2% by the latter half of the year.

Similarly, we anticipate that UK growth will register close to 1% in 2025 — possibly just over 1% if lucky. We see only limited growth benefits from last October's fiscal event in the form of the new Labour government's expansive tax-and-spend budget. Combining the eurozone and the UK's macro outlooks, we suggest that the region's recent lacklustre track record, albeit positive economic growth, should persist through the coming year.

As far as the ECB and the BoE interest rates are concerned, we maintain they should pursue a more dovish path than the Fed over the coming quarters. Unfortunately, the ECB is not in the habit of offering much guidance on future policy decisions. Still, multiple speakers have opined in recent months that monetary policy remains restrictive, suggesting that the ECB has room to cut interest rates further before the 'neutral rate' is reached.

We expect the ECB to cut policy rates by 25 basis points at every meeting until June. That would take the ECB deposit rate to 2.0% from 3.25% currently. More importantly, though, we expect to see further ECB easing during the second half of 2025, when the neutral rate is likely to be viewed as being lower than the ECB's 2% to 2.5% estimate. This being the case, global markets should be braced for the ECB's deposit rate to fall toward 1.5% territory during the latter half of the year.

Across the channel, while the BoE kicked off its rate reduction cycle in August, with the Bank Rate currently at 4.75%, and with further easing justified given the macro situation in the country, that might be easier said than done for the BoE. We believe the aforementioned fiscal event of the UK government's budget last October will create a solid headwind against the BoE's easing aspirations. Unsurprisingly, the BoE now recognises the associated monetary and fiscal uncertainty, which means its forecast still leaves headline inflation above 2% over the coming two years. We believe the BoE will now follow a slower pace of monetary easing — likely structured around quarterly 25 basis points cuts until May — and then sequentially thereafter until September 2025, which should result in Bank Rate finding a floor close to 3.5% territory.

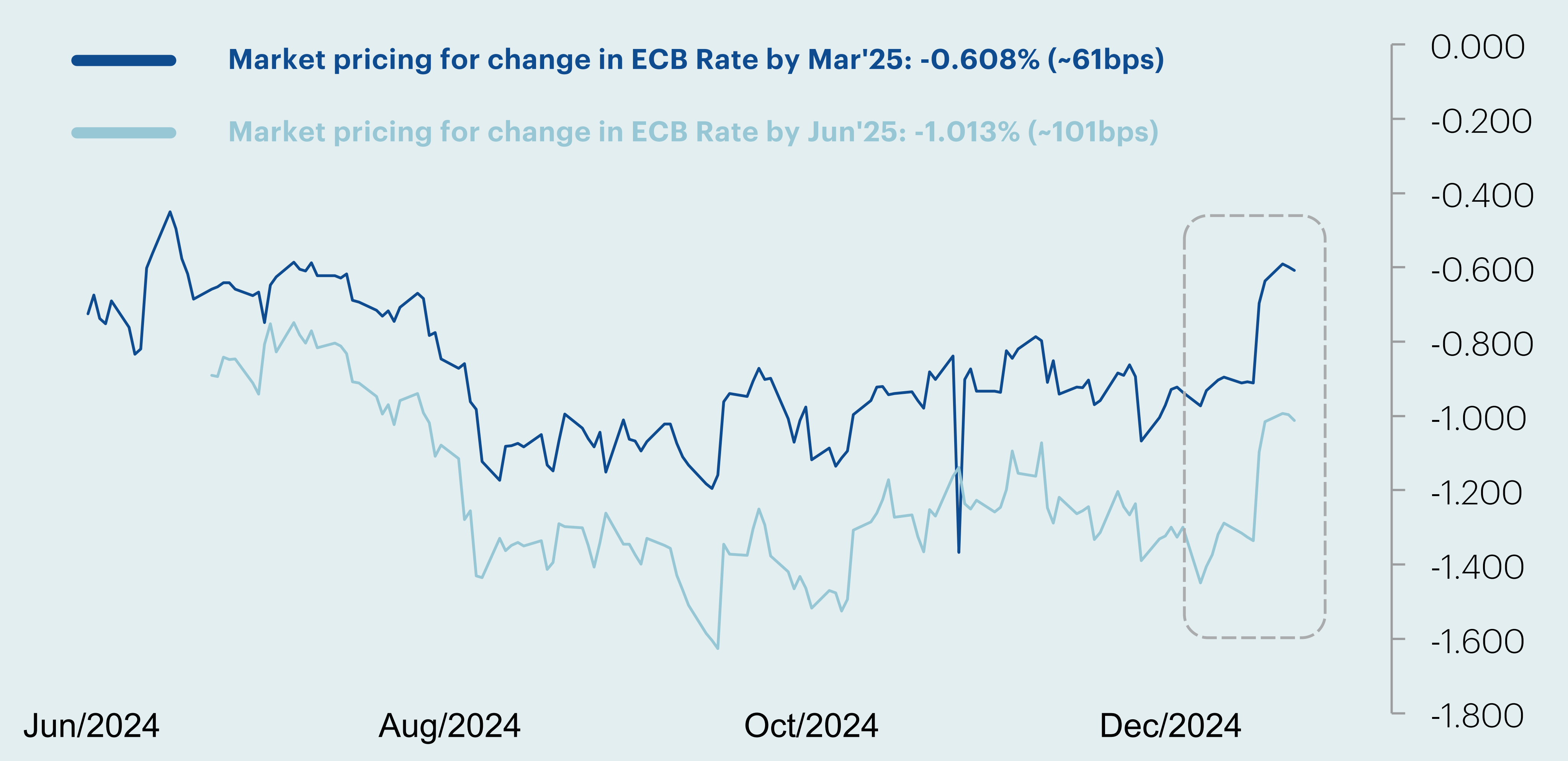
China Macro / Rates Outlook

China has made some significant strides in recent months in its efforts to shore up the economy and aid the aspirational transition from an investment-led to a consumption-led economic model, but the success rate has been limited, and much work remains to be done. Notwithstanding the efforts that have been made, domestic consumption has consistently disappointed over the past year or so, and housing demand has still not stabilised. The latter sector still looks parlous. Meanwhile, the economy continues to be plagued by near-zero inflation, within which falling home prices have created a negative wealth effect. All of this, along with the added negative overhang, means that youth unemployment remains structurally elevated.

Monetary and fiscal stimulus from the People's Bank of China and the government alike have been sizable but focused on putting a floor under the still anaemic housing market and helping local governments instead of providing a meaningful and sustainable boost to consumption. Yes, the measures have fuelled a rally (that has since stabilised) across the equity market, but investors remain wary. What the market really needs to build its confidence is greater transparency and colour as to just how much fiscal medicine (stimulus) the authorities are prepared to prescribe — and finance — for the patient. We have not seen concrete signs of the hoped-for 'bazooka' style initiative.

Market re-pricing the expectations

Source: Bloomberg/FAB

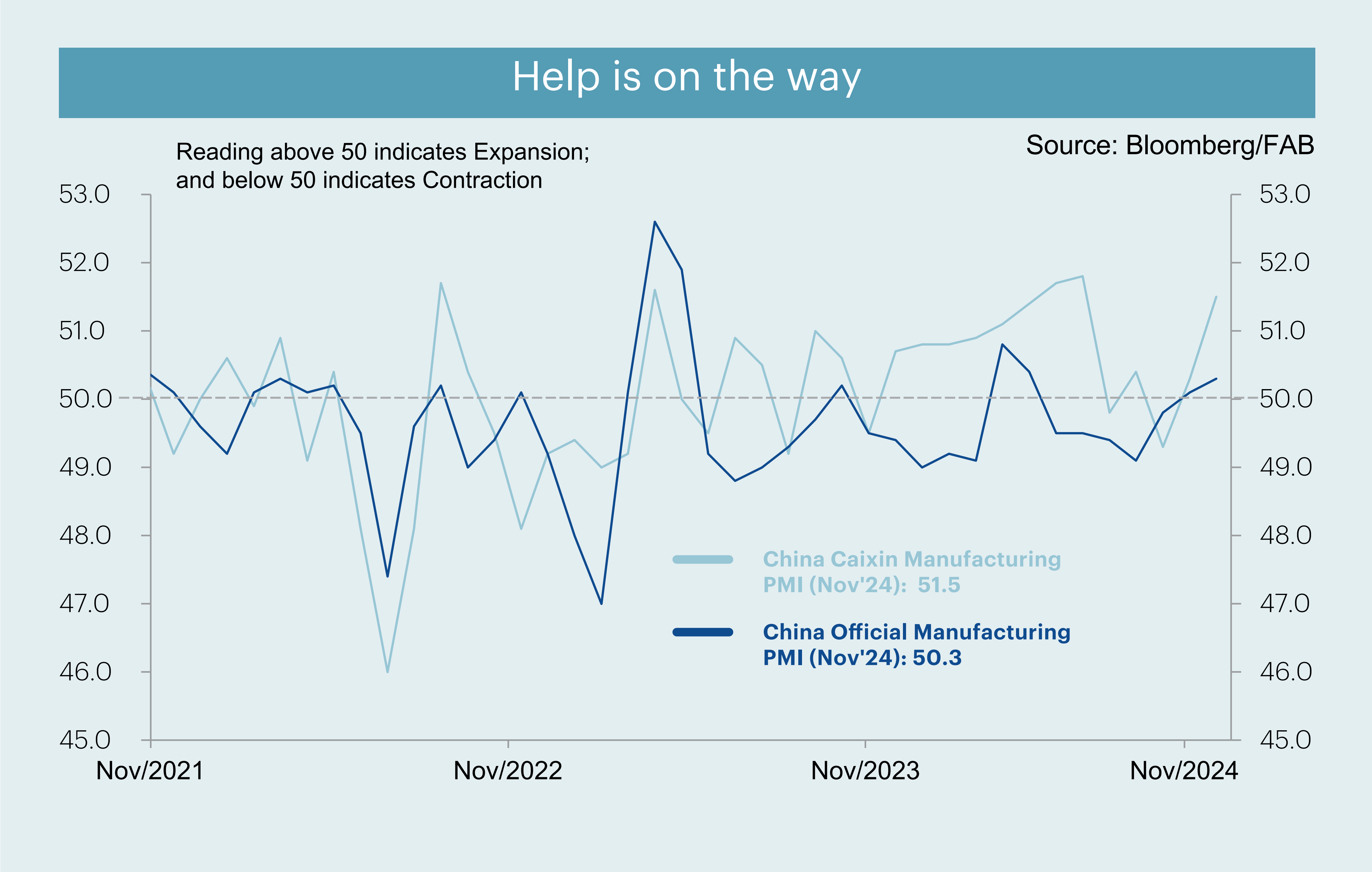


That said, we must acknowledge the recent shift by the Politburo away from its 'prudent' bias to a 'moderately loose' strategy for monetary policy in 2025. This was, without doubt, the most aggressive shift in stimulus tone in over a decade and marks the first time in some 14 years that the stance has been 'moderately loose'. The last time such a stance prevailed was from late 2008 until the end of 2010, in response to the global financial crisis, when Beijing announced a 'bazooka' stimulus package to underpin the economy at a time of global meltdown.

The Politburo also stated that it would now take a 'more proactive' approach to fiscal policies to stabilise the anaemic property sector and bolster the stock markets while committing to 'forcefully lift consumption'. One might assume that this will now lead to Beijing widening the economy's fiscal deficit from the current 3% at the annual parliamentary gathering in March.

That said, however positive these latest headlines from Beijing may appear, we will retain a degree of caution until we see the extent to which the measures' delivery and implementation prove successful.

Therefore, we remain sceptical as to what extent the government can feasibly create a sustained recovery in housing market activity and in consumption. These two sectors will remain critical to China's macro outlook this year, given that collectively they account for around 70% of the country's GDP. Altogether, we continue to believe that China's economy will struggle to get even close to the government's aspirational target of 5% real GDP growth and would forecast 4.1% as a more likely result over the coming 12 months as the hit from tariffs offsets — at least partially — the boost from the stimulus.



GCC Macro Rates Outlook: And now for the good news

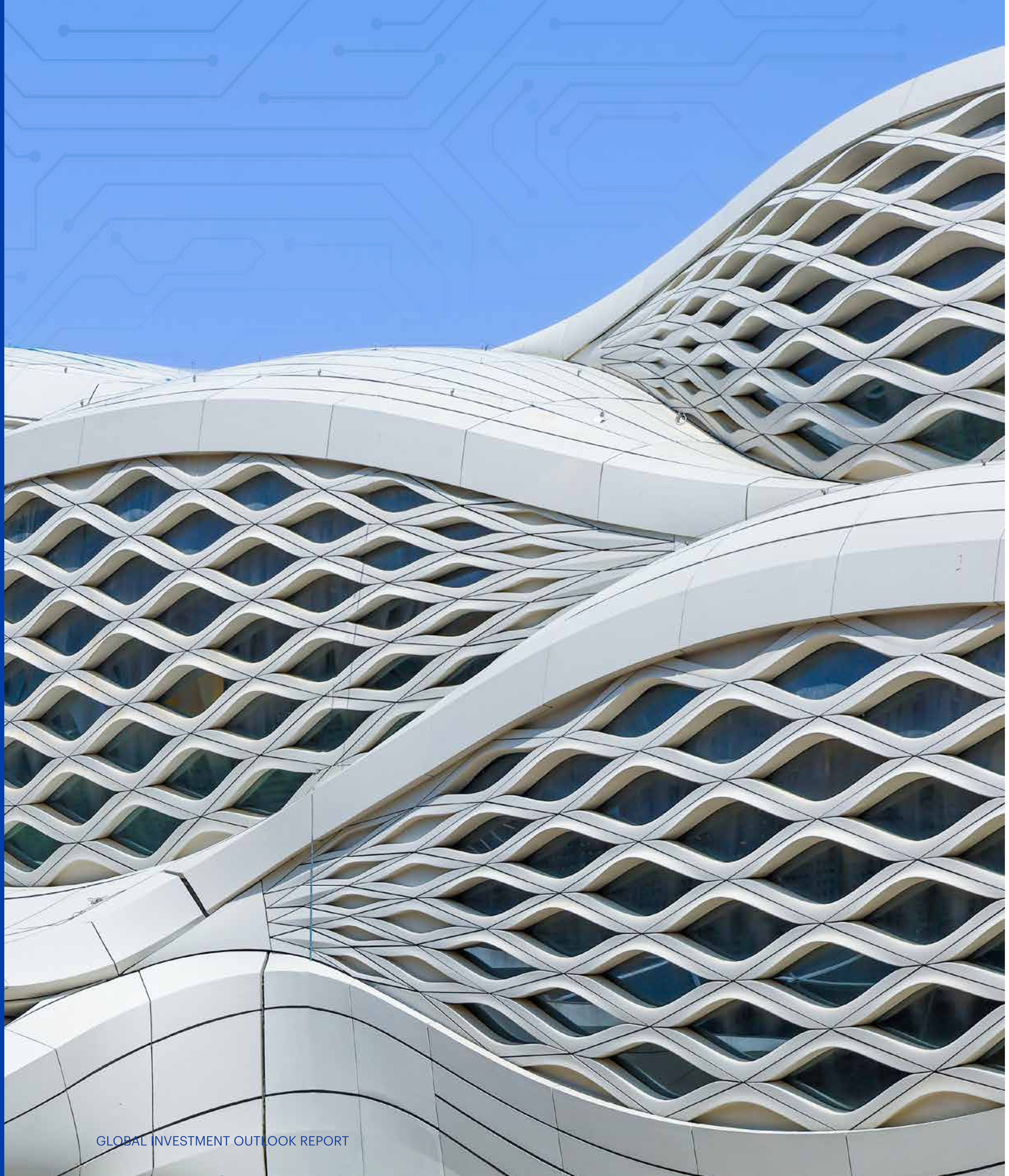
While the economies of the US, Europe, and China will face a myriad of monetary and fiscal challenges over the course of 2025, as discussed above, the GCC macro landscape is again expected to be a picture of economic resilience and growth outperformance. For the GCC region, we currently expect GDP growth to double from 2.1% in the past year to 4.2% in 2025. Such a rebound will be founded on another year of solid economic diversification, resilient economic activity, and growth performance by the non-oil sectors of the economy.

Indeed, a clear reflection of domestic economic activity and business optimism, particularly across the non-oil sectors of the economy, is evident in the recent performance of the region's Purchasing Managers Indexes (PMIs). With '50' on the indices representing the breakeven between economic contraction (<50) and economic expansion (>50), most of the GCC region's country PMIs have now been in 50+ territory since late 2020.

Such readings underscore the robust nature of domestic activity, consumption, and private investment. The PMIs also reflect the depth and ongoing success of economic diversification strategies across the region, encapsulating key sectors such as tech, healthcare, education, tourism, finance, renewable energy, and AI.

Our constructive outlook on the GCC macroeconomic landscape in 2025 was bolstered and corroborated by Mody's upgrade of Saudi Arabia's sovereign credit rating. On 23 November 2024, the rating agency upgraded its sovereign credit rating for Saudi Arabia — and associated government-related entities — to Aa3 from A1. At the same time, the rating outlook was unsurprisingly revised to stable from positive, indicating balanced risks to the new, higher rating.

Moody's stated that the upgrade reflected the success of the country's economic diversification efforts and the reduction in Saudi Arabia's exposure to oil market developments and long-term carbon transition. Moreover, in the rating report, Moody's stated that the new Aa3 rating was also based on the expectation that

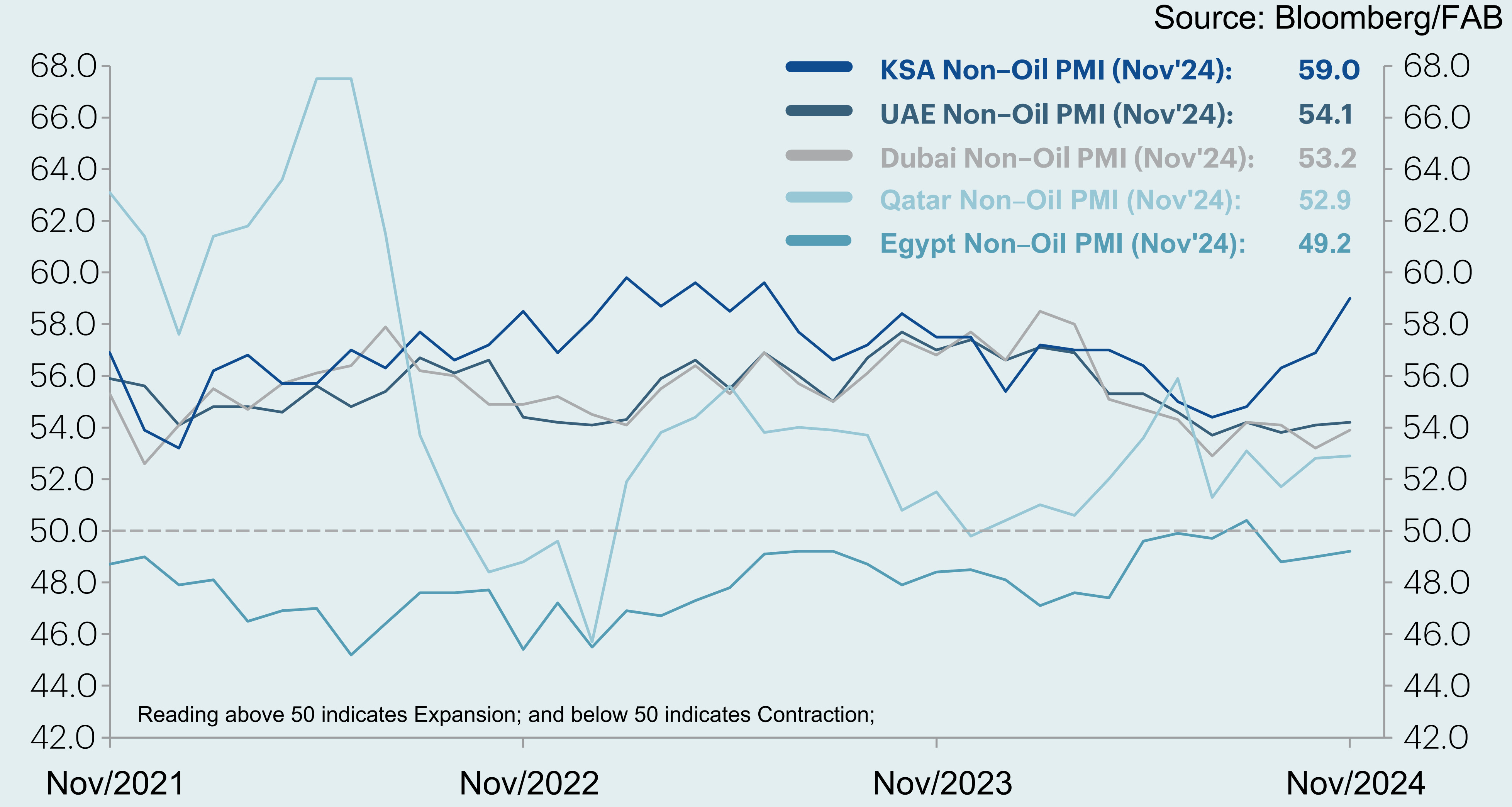


Saudi Arabia's diversification momentum will be sustained going forward. This was Moody's first rating upgrade of Saudi Arabia since the initial assessment in 2016.

The relative allure of the GCC region is perhaps no better highlighted than by comparison with the eurozone manufacturing PMI, which continues to languish below 50. This maturing picture across the GCC's non-oil economy, coupled with an anticipated easing of OPEC+ oil production quotas over the coming months, should help to bolster the economic outlook and outsized growth potential for the region during the 2025 financial year.

In this respect, we note that the Central Bank of the United Arab Emirates (CBUAE) recently opined that the country's strong foreign trade performance should continue in 2024 and 2025, a view that we wholeheartedly concur with. Even more constructively, while the CBUAE estimates

An oasis of value

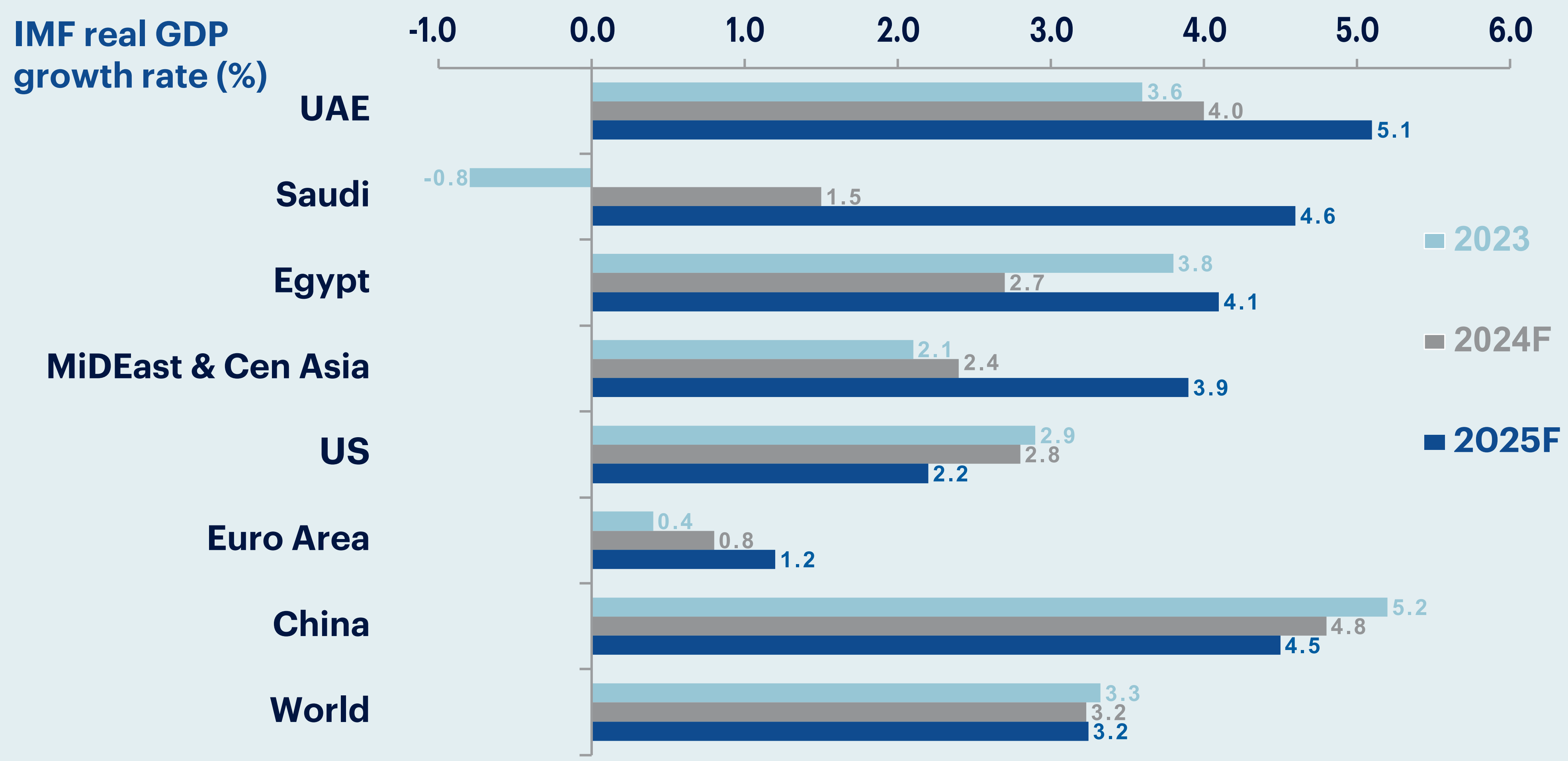


that UAE economic growth in 2024 should have registered at just below 4% (3.9%), we believe the economy will have expanded by 4.5% year on year in 2024. Moreover, we then forecast a further pickup in the pace of economic expansion to 5.6% over the year ahead (2025), with the CBUAE hopeful for growth of up to 6.2%.

From a rates perspective across the GCC territories, we expect sovereign interest rates to move (lower) in line with US interest rates over the coming quarters. This, of course, will be a consequence of the US dollar-pegged currencies, and we see no threat to the pegs over the foreseeable time frame. With the Fed now seen leaving the Fed funds rate target on hold until perhaps March, followed by modest easing thereafter, we expect GCC rates to move in a similar direction and to a similar magnitude this year. Like the Fed, this would mean no more than an aggregate of 1.25% of easing — five 25 basis points rate reductions — over the coming 24 months.

Please click here to view our recent publications on MENA and Global Markets

UAE to become one of the fastest growing economies



Key Risks In 2025

Glenn Wepener – Chief Strategist, Market Insights & Strategy

Global Markets | FAB | www.bankfab.com | Abu Dhabi, United Arab Emirates

"The only thing we know about the future is that it's going to be different" (Dr Peter Drucker)

As 2024 draws to a close, the impact of the past 12 months, from conflicts to hotly contested elections, will no doubt continue to be felt in the year ahead. In this piece, we focus on a few key risks to keep an eye on in 2025, some of which are not new but are becoming far more acute in our polarised world.

US Domestic & Foreign Policy – 'Back to the Future'

After Donald Trump's convincing win in the US election, one thing is for certain: his second term in office will be very different from his first. Back in 2016, he was still a Washington outsider and thus not completely au fait with the capital's political machinations. Now, he is more experienced and filling his cabinet with loyalists (pending confirmation by the Senate) rather than pure establishment personalities. Trump is also in the somewhat unique position of being the first Republican President in decades not just to win the popular vote but also lead his party to victory in both the Senate and the House. Combining all this with the fact that he cannot run for a third term means he has a much freer hand to enact his plans for the country with only limited constraints this time around.

One true positive of his overwhelming victory at the ballot box, is that the risk of a major domestic political crisis with recounts and court cases was nullified. Admittedly, the often fractious and angry divisions between both sides of the US political spectrum are not set to be resolved anytime soon, but at least this was not exacerbated by a delayed outcome to the vote. Initially, his administration will focus on domestic matters as Trump himself stated during his victory speech. These will include shrinking the administrative state and a changing of the guard at key federal agencies such as the Departments of Justice, Health and Commerce, as well as clipping the wings of others like the FBI and SEC. His announced creation of a 'Department of Government Efficiency', an

advisory entity which will be co-led by Elon Musk and Vivek Ramaswamy, underlines Trump's stated desire *"to dismantle government bureaucracy, slash excess regulations and cut wasteful expenditures."*

Meanwhile, the responsibility for reducing the inflow of illegal migrants and deporting many of those already in the US, has fallen to Tom Homan, a hardline anti-immigration border official. However, depending on how its implemented, this program could have a significant impact on wage costs and consequently raise domestic inflation. This risk was raised by Zeke Hernadez, a senior economics professor at Wharton, who warned that the loss of migrant workers *"would be an economic disaster for America and Americans,"* adding that *"undocumented immigrants make up a huge proportion of household services, manufacturing work, kitchen staff in restaurants. Americans simply do not do those jobs, or there are not enough to go around. But if you lose those key 'bottleneck' workers, the native workforce also can't do their jobs."* Another early priority will be to reverse Joe Biden's decarbonisation agenda, but here, Trump may face some pushback, especially when it comes to issues such as the outgoing's President's 'Climate law'. This is because most of the investments, subsidies and jobs linked to this 'green' program have occurred within Republican congressional districts.

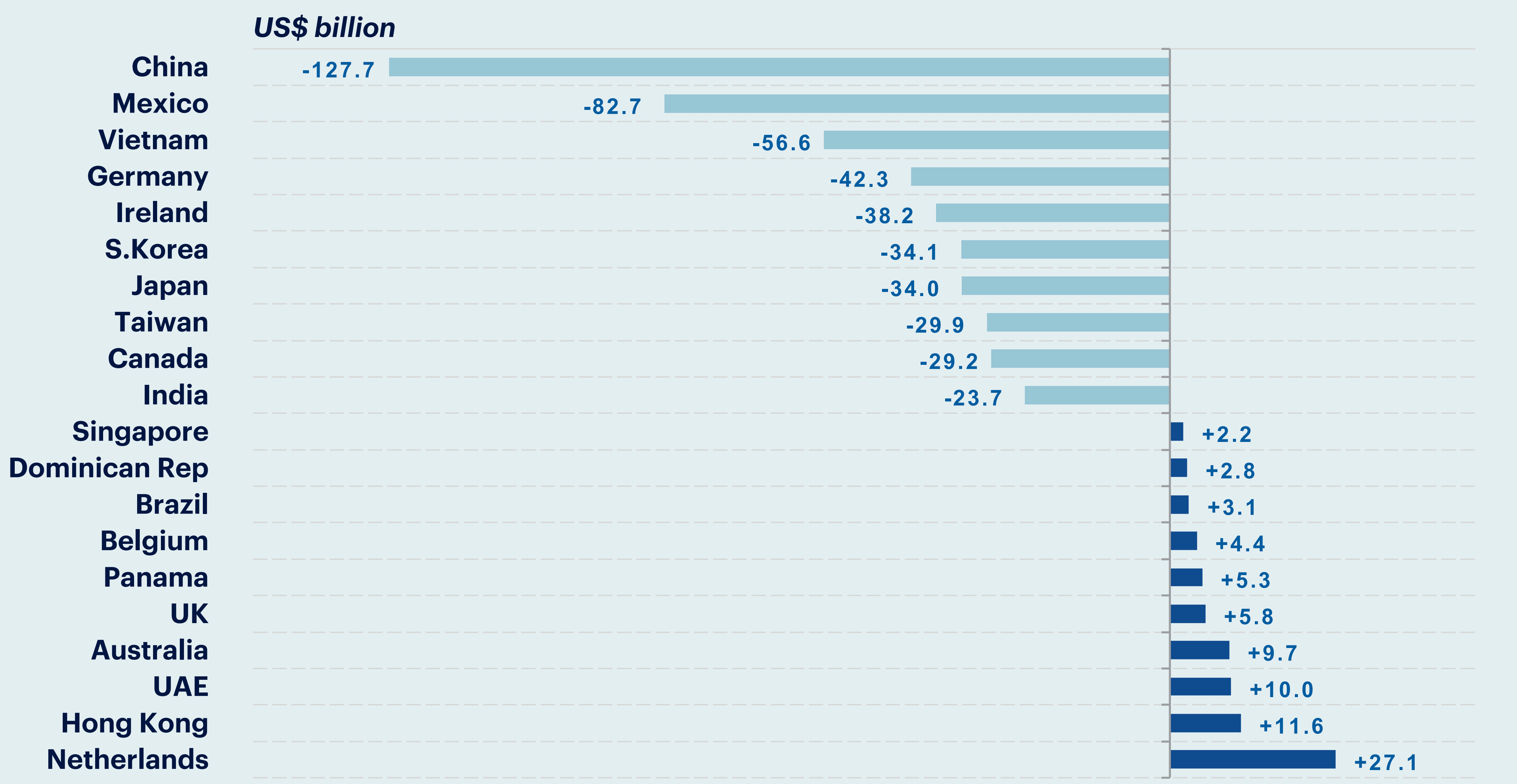
On the foreign policy side, the US will again withdraw from international agreements related to climate change, such as the Paris Accord, this was underlined in a comment made by Trump back in November in which he claimed that climate change was *"all a big hoax"*. However, widening the confrontation with Beijing on trade and technology will no doubt be front and centre, and here the preparations have already begun. This is highlighted by Trump's nomination of three known 'China Hawks', namely Marco Rubio to serve as Secretary of State, Michael Waltz (a former Green Beret) as National Security Advisor and Elise Stefanik as Ambassador to the UN. During his election campaign, Trump threatened to slap a blanket 60% tariff on all Chinese exports to his country. If implemented, this would not just be inflationary for the US consumer but also result in a significant blow to the Chinese economy which is still struggling to recover since its COVID restrictions were lifted. His nomination of the Wall Street billionaire, Howard Lutnick, as Commerce Secretary, further points to this direction of travel with Lutnick also very enthusiastic on this subject. This he made clear in October 2024 when he suggested that the country should go back to 1900 when *"We had no income tax, and all we had was tariffs."* Even Scott Bessant, the likely next Treasury Secretary has described tariffs as a *"useful tool"* and suggested that *"other countries have taken advantage of the US's openness for far too long, because we allowed them to. Tariffs are a means to finally stand up for Americans."*

Historically speaking, tariffs have often proven to be a blunt instrument, and their potential widescale use could not only weaken global growth, sharply increase freight rates and make business planning far more difficult, it could also negatively impact relations with key US allies.

However, the threat of broader tariffs may just be an early negotiating position by Trump and, therefore, on the optimistic side, when also considering the current headwinds facing China's economy, such posturing might just lead to a major trade deal between the world's two superpowers. Alternatively, it could trigger a global trade war, especially as China is not the only country in Trump's sights.

US Goods Trade Surplus (+ve) & Trade Deficit (-ve) with Major Partners in H1 2024

Source: Voronoiapp.com / FAB



Japan, Taiwan, South Korea, Vietnam, India, Mexico, Canada and Germany all have sizeable trade surpluses with the USA (as shown below). He also recently warned members of the BRICS grouping not to attempt to create an alternative to the US dollar or ,they could face a tariff of 100%.

The first real warning shot in this potential trade war came at the end of November 2024, when Trump pledged to impose 25% tariffs on both Canada and Mexico as soon as he takes office, in what he claims would be retaliation against the two neighbouring countries for not doing enough to stop illegal migration and the illicit flow of fentanyl into the US. This threat saw Prime Minister Trudeau and President Sheinbaum Pardo quickly reach out to Trump to discuss the matter, although it seems clear that the US President-elect is determined to push for a renegotiation of the USMC free-trade agreement which is scheduled for review in 2026. Mexico and Canada are the two largest trading partners of the US (followed by China) and, Pardo has warned that *"It is not with threats or tariffs that we will address the migration phenomenon, or drug use in the United States. One tariff will be followed by another in response, and so on, until we put our communal companies at risk."*

A trade dispute with his country's largest trading partners could also undermine Trump's domestic economic strategies, but his 'America First' agenda is, in truth, more aligned with multipolarity and will likely speed up the shift away from the world's longstanding rules-based order. This then raises questions around the future of NATO, a key pillar of security for Europe since 1949. Trump's views on NATO are unlikely to have changed, and although Sweden and Finland have become the latest members of the organisation, NATO's new Secretary-General Mark Rutte is going to have his hands full managing the US President-elect's unpredictability when it comes to maintaining America's vital role in the alliance over the next four years. This uncertainty further underscores the need for the Europeans to get much more serious about upgrading and expanding their own defence capabilities. In the meantime, Rutte should perhaps quietly remind Trump that the UK and Europe deployed thousands of troops to Iraq and Afghanistan in support of their American ally after 9/11, and while the US is helping to defend Europe, this also serves Washington's own strategic interests. As a former NATO official, James Shea, wrote in July this year, *"Without Europe's solidarity, it will be much harder for the USA to put serious pressure on China."*

Geopolitical Fault Lines

The conflict in the **Levant Region**, which was triggered by the October 7th 2023, attack on Israel by Hamas, developed into the longest war Israel has fought in its history and tragically, was still ongoing at the time of writing. Consequently, the fear that this could develop into a full-blown regional war between Jerusalem and Tehran, lingers and although we feel that such an event remains at the lower end of probability, it's not a zero-risk possibility. The Israeli government does appear likely to continue to expand its fight against Iranian proxies in the region and perhaps attempt to further degrade Iran's military capabilities in the weeks and months ahead, especially after Tehran threatened to speed up its uranium enrichment program when the IAEA recently censured the regime again. Netanyahu's sudden dismissal of his defence minister, Yoav Gallant, in early November and replacing him with former Foreign Minister Israel Katz (who has no real military experience but is a well-known Netanyahu loyalist) further underline this possibility. Meanwhile, a major indirect consequence of the Israel/Hamas/Hezbollah conflict was the ouster of the Bashar al-Assad regime by Syrian rebel groups in early December 2024. This surprise and rapid end to his family's long-term rule was driven by the fact that over the past six months, the IDF has significantly weakened Hezbollah's military wing, a key provider of fighters and advisors in support of the Syrian government forces during the country's civil war which began back in 2011. This, combined with Russia's military being almost completely focused on the conflict in Ukraine, meant that neither entity was in a position to intervene and rescue the regime in Damascus this time around, as they had done back in 2015.

Of course, Donald Trump's imminent return as US President is understandably seen by many as a positive for Netanyahu, and this was highlighted in comments made by the former Israeli ambassador to the US, Michael Oren, who was quoted as saying by 'AP News' that Trump has the *"most pro-Israel record of any President,"* adding *"the hope is here that there'll be more of the same."* Certainly, the selection of the former Arkansas governor Mike Huckabee as the next US Ambassador to Israel supports this view. Huckabee, an evangelical Christian, is extremely pro-Israel and previously opined that Israelis has a rightful claim to the West Bank. However, relations between the incoming Trump administration and Jerusalem may not be completely plain sailing, especially as the situation in the Levant is very different now than it was in 2020, while Trump reportedly told the Israeli Prime Minister back in July this year that the war in Gaza must end before he re-enters the Oval Office in January 2025. Trump is not only anti-war, which he considers expensive, he is also not entirely supportive of an Israeli annexation of the entire West Bank. It's this latter issue that may bring him into confrontation with the far-right members of the Netanyahu administration, such as the Israeli Finance Minister Bezalel Smotrich, who recently suggested that the incoming US President has created an *"important opportunity"* to *"apply Israeli sovereignty to the settlements in Judea and Samaria"*.

When it comes to **Iran**, the general expectation is that the Trump administration will restore its maximum pressure campaign on Tehran. This was eased by President Biden in 2021, which in turn allowed the country to increase its crude oil exports to as high as two million bpd earlier this year, compared to an average of 775,000 bpd during Trump's first term in office. Expectations of renewed US pressure was highlighted by the Iranian Rial's fall to new record lows against the dollar in early November as it became clear that Tehran's nemesis was going to win re-election. At the same time, while tightening the US economic noose around Iran appears very likely to be implemented in 2025, a new, more stringent JCPOA cannot be completely ruled out either. Trump himself has claimed that he would consider renegotiating a deal with Iran if he was re-elected. *"Sure, I would do that, we have to make a deal because the consequences are impossible,"* he was quoted as saying in September this year.

Meanwhile, those hoping that an eventual permanent ceasefire in Gaza will also bring an end to Houthi attacks on ships transiting the **Red Sea** may be disappointed. While the rebel group in Yemen originally tied their ongoing attacks to the war in Gaza, they have also allegedly become used to earning significant sums by persuading some ship owners to pay them 'safe passage fees'. This in turn has reportedly become one of their primary revenue sources, as suggested in a detailed 537-page UN study on Yemen which was published in October 2024. *"The panel's sources conveyed that the Houthis allegedly collected illegal fees from a few shipping agencies to allow their ships to sail through the Red Sea and the Gulf of Aden without being attacked. Sources further informed the panel that these shipping agencies coordinate with a company affiliated with a top-ranking Houthi leader and that the fees are deposited in various accounts in multiple jurisdictions through the hawala network and through adjustments involving trade-based money laundering. The sources estimate the Houthis' earnings from these illegal safe -transit fees to be about US$180 million per month"* the UN report states.

This figure does, however, seem overly high, especially as the overall volume of marine traffic using this route has fallen dramatically over the past year. But even if the actual number is 50% lower, it would still be a significant amount. The UN panel of experts also claim that the Houthis have developed a diverse network of political alliances, military suppliers and financial support networks, including with terror groups like 'al-Qaeda' in the Arab Peninsula and 'al-Shabaab' in Somalia. This could enhance the Houthi's ability to strike vessels further out to sea and reach a scale of risk *"not seen since the Second World War"*, the UN study suggests.

Across in Asia, recent developments on the **Korean Peninsula** are troubling. Historically, when Pyongyang has conducted sudden ballistic missile tests and made threats against both the US and South Korea, it usually indicated that the regime was facing economic challenges, and this may well be the situation again now. However, there were a series of unprecedented actions taken by Kim Jong Un in 2024, which were as unusual as they were alarming. For example, he abolished several longstanding government agencies that had originally been set up to handle cooperation and eventual reunification with South Korea, announcing that unification was no longer possible and his country's constitution had been amended to designate Seoul as the *"principal enemy."* Then, in October, thousands of DPRK troops were deployed in support of Russia's battle against Ukraine, which may provide North Korea with some much-needed hard currency but also marks the country's first major intervention in a foreign conflict and a significant escalation in this three-year European war. The Biden administration's decision to allow Ukraine to use US supplied long-range missiles for strikes inside of Russia, is seen as a response to the involvement of North Korean troops, although it's probably also an attempt to give Kyiv a better negotiating position ahead of Trump's inauguration.

Meanwhile, the domestic political environment in South Korea was suddenly thrown into upheaval in early December after President Yoon Suk Yeol declared martial law in an apparent attempt to push through some of his key policy objectives, including greater defence spending and a triparty defence agreement with the US and Japan to counter North Korea. These proposed bills had been consistently blocked by the opposition DPK party who claimed they risked open conflict with the North, leading to somewhat of a policy paralysis. However, the President backtracked just six hours later when legislators in the national assembly voted against his implementation of martial law. Yoon's failed gambit had, at the time of writing, led to a travel ban and a probe into possible insurrection charges against him.

It is very possible that Donald Trump may be able to bring an end to the **Ukraine/Russia** conflict in 2025 by persuading both Kyiv and Moscow to begin truce talks. Ending this war in "*24 hours*", as he claimed he would during his election campaign, is a fallacy, but he does have various forms of leverage on all sides involved. For example, he may offer to allow Russia to keep the territory it currently occupies and prevent Ukraine from joining NATO to tempt Moscow to the table while also threatening to dramatically increase aid to Kyiv if Putin refuses. He could also suspend US military and financial support to Zelensky's government to persuade them to sign up to a deal, while at the same time encourage the EU to get on board by again threatening to pull the US out of NATO.

The return of President Trump is also raising questions on what this could mean for **sub-Saharan Africa**, especially given that he largely ignored this region during his first term in office. Perhaps the now much talked about 'Project-25' document, which was put together by the Heritage Foundation and is regularly cited as a potential blueprint for at least some of the incoming administration's strategies, provides us with some possibilities. For example, the document's authors suggest that Washington should only concentrate on those African countries where a "*mutually acceptable*" and "*business-centric*" relationship was possible. Therefore, an initial indicator on where a Trump administration's strategy on Africa is heading, could be based on what it does with the 'African Growth and Opportunity' agreement when it comes up for renewal in 2025. This trade agreement has been in place since 2000 and provides duty-free access to the US market for select exports from eligible countries in Sub-Saharan Africa. However, South Africa, which is the region's largest economy and currently the primary beneficiary of this treaty, has been at diplomatic loggerheads with the United States in recent years over Washington's view that Pretoria has abandoned its traditional policy of non-alignment by building closer ties with Beijing, Tehran and Moscow, whilst also becoming openly hostile to Israel.

This dispute got so heated it led Congress introduced a bill in June 2024 that called for a full review of relations between the two countries. The US is South Africa's second-largest trading partner and AGOA's contribution to its economy is extremely important. The US imported $14.6 billion worth of goods from South Africa in 2022, a 68% jump compared to 2012, but equally,. America relies on South Africa for 100% of its chromium and more than 25% of its manganese, titanium and platinum imports.

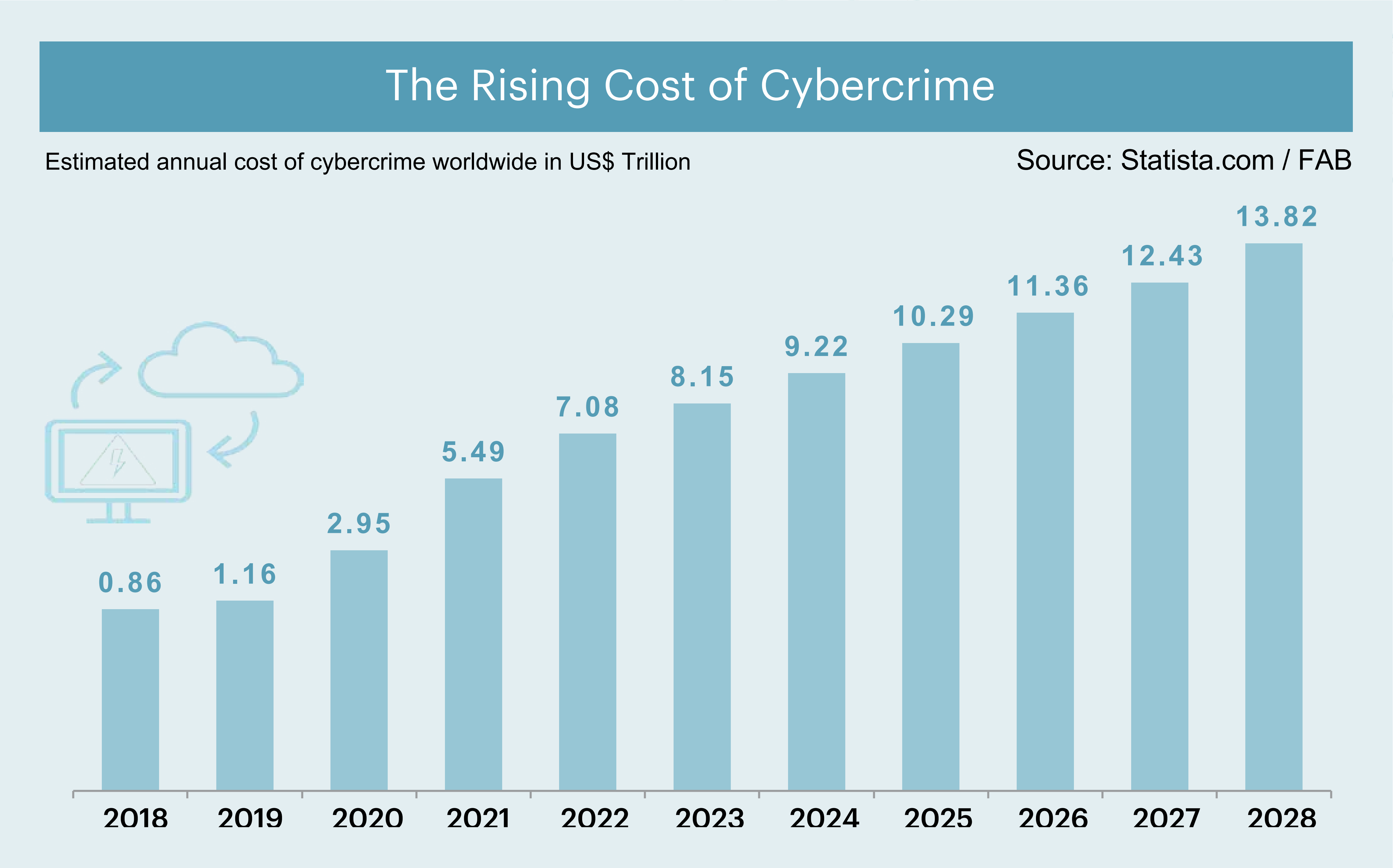
Ignoring the continent entirely would be a major mistake for the US, especially as it is home to some of the fastest growing economies in the world and has a very young and aspirant population. America's main global competitor, China, recognised this some time ago and has leveraged off its 'Belt & Road Initiative' to build

strong relationships in the region. This is highlighted by the fact that annual trade between China and sub-Saharan Africa is now estimated to have reached more than US$282 billion. The GCC countries are also rapidly expanding their economic ties down south, especially the UAE, which is now the fourth largest investor in Africa. The US President-elect has an opportunity to create a new dynamic relationship with the African continent, but whether he will seize it or not remains an open question.

Of course, there are other geopolitical risks in Africa to watch, such as the ongoing extremist activity in the **Sahel region**, which has not only encouraged more than 3.40 million people to flee the violence in their home countries but could also threaten the political and economic stability of some democratic states, especially those situated along the West African coast. A recent report published by the Institute for Economics & Peace stated that Sub-Saharan Africa currently constitutes more than half of total deaths resulting from violent extremism and terrorism globally, with 50% of the victims being ECOWAS citizens. The Ivory Coast, Ghana, Benin and Togo are now facing growing security risks in their own border areas, which are directly linked to militants. Then across in Nigeria, which has long been battling groups such as 'Boko Haram' in its northern states, officials have reported the appearance of a new and potentially more dangerous terrorist group called 'Lakurawa' which is believed to have been offering attractive sign-on bonuses to unemployed youths in and around Nigeria's borders with Chad and Niger, resulting in thousands of new recruits. Violent extremism in the region is being driven by a range of factors including unemployment, poverty, inadequate policing, political exclusion and instability.

Artificial Intelligence

According to a report published by the research firm Forrester, the overall cost of cyber-attacks by 2027 is predicted to exceed US$12 trillion, with individuals already losing an estimated US$318 billion per annum to cybercriminals. The rapid expansion and weaponisation of artificial intelligence have led to far more lethal cyber-attacks by both state and non-state actors. and these are set to become even more dangerous with the arrival of quantum computing. A separate survey of security professionals (also conducted by Forrester's earlier this year) found that 78% of respondents believed that their organisation's sensitive data had been potentially breached at least once over the previous 12 months, while 48% of those surveyed said they had experienced a cyber incident which cost more than US$1 million. In the third quarter of 2024 alone, the average number of weekly cyberattacks



per organisation hit an all-time high of 1,876, which was a 75% increase compared to the same period last year, according to the technology firm Check Point.

Aside from more sophisticated hacking and violations of privacy, artificial intelligence has created several other challenges. These include:

1. A new technology-led 'cold war' between the world's main powers is continuing to grow as each look to gain a strategic edge over their adversaries. This in turn has led to the development of 'Lethal Autonomous Weapon Systems', which are able to locate and destroy targets on their own. Such weapons could lead to a major disaster if they fall into the wrong hands. This specific risk was raised in an open letter written by several AI and robotics engineers in 2016.

2. Job losses linked to AI-powered automation may exceed those it creates. with Goldman Sachs

estimating that roughly 66% of US occupations are currently exposed to some degree of automation by AI.

3. Social manipulation using AI has made it much harder for people to identify what is factual and what isn't. As a result, bad actors have yet another avenue for sharing misinformation and propaganda,

4. According to the IEA, data centres consumed 1.65 billion gigajoules of electricity in 2022 which is equal to about 2% of global demand. The ongoing deployment of AI could see data centres current energy consumption increase by more than 35% by 2026, driven by AI-powered web searches(the same as Sweden's annual power demand).

5. AI-led algorithmic trading is unable take situational context into account, this in turn could lead to extreme volatility and even a sudden market crash.

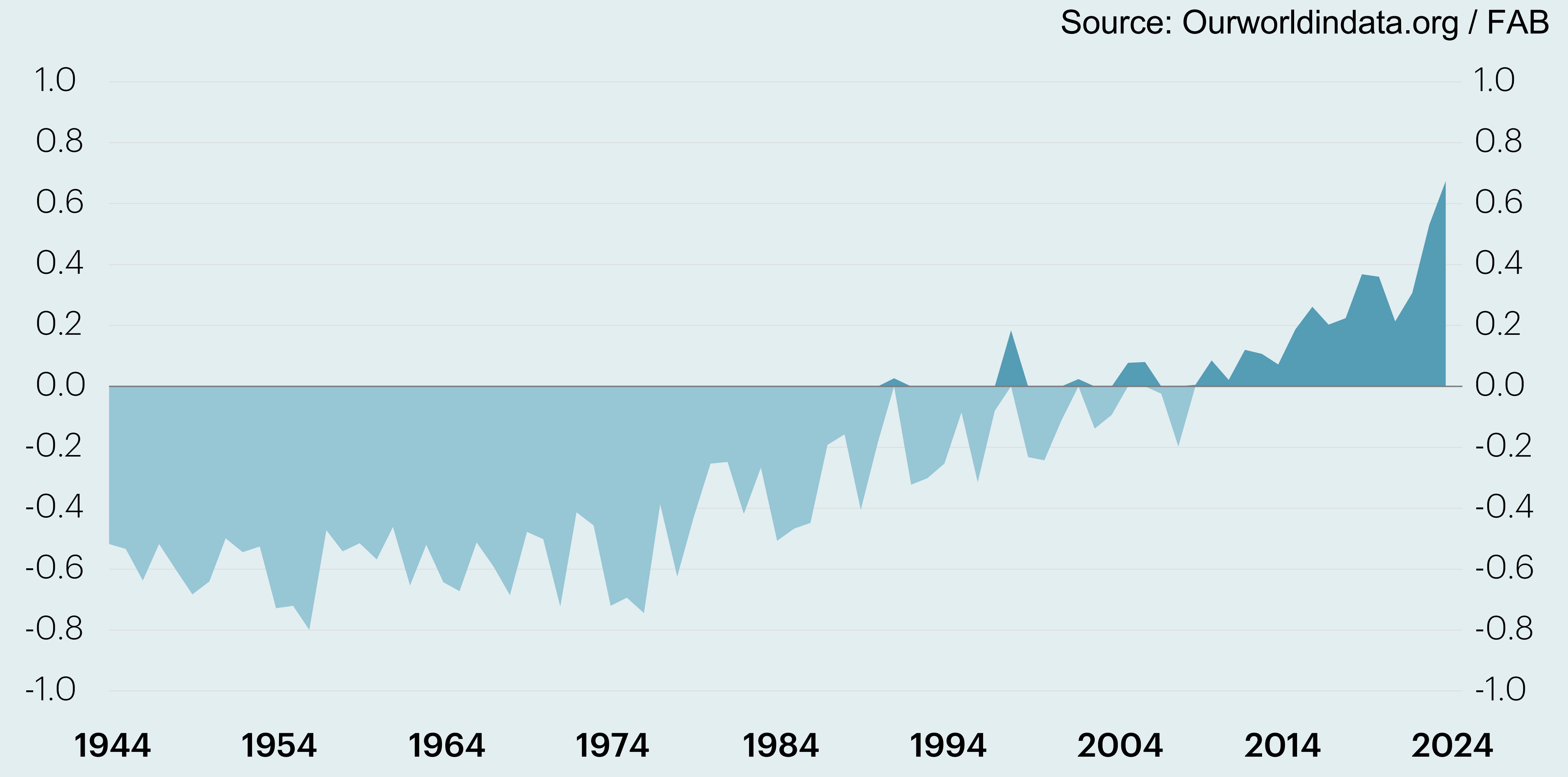
Whilst we acknowledge that Artificial Intelligence will impact society positively and negatively, its global governance is vital to ensure the responsible use of such game-changing technology. As an essay published by Chatham House in June 2024 accurately explains, "*If 20 years of digital technology development have proven one thing, it is that power derived through technology rarely maps neatly to geographies, markets or any existing set of international rules, norms or values.*" We need to remember too, that it's not possible to compare the industrial revolution or the invention of the printing press to what is happening now, because artificial intelligence is the first technology designed by man that can teach itself. Unfortunately, many governments and multilateral institutions have thus far been slow to recognise that perhaps the greatest challenge posed by AI, is the ability of the world to come together and develop an entirely new regulatory framework around this powerful technology, which will need completely new agreements, treaties and institutions to be effective, sustainable and ultimately protect global order.

Climate Change The World Meteorological Organisation said in its latest 'State of the Climate' report that 2024 remained on track to be the warmest year on record, exacerbated by the impact of El Nino. The global mean surface air temperature between January and September 2024 was 1.54°C above the pre-industrial average, the authors of the report wrote adding that 2015-2024 has been the warmest ten years on record as the pace of glacial melting and rising ocean temperatures accelerated. In fact, July 2024 was the hottest month ever seen in Africa, Asia and Europe since records began in 1850.

This, in turn, is generating more extreme weather events, which are wreaking havoc on communities and economies across the world. "*The record-breaking rainfall and flooding, rapidly intensifying tropical cyclones, deadly heat, relentless drought and raging wildfires that we have seen in different parts of the world this year are, unfortunately, our new reality and a foretaste of our future. We urgently need to reduce greenhouse gas emissions and strengthen our monitoring and understanding of our changing climate. We need to step up support for climate change adaptation through climate information services and Early Warnings for All,*" WMO's Secretary-General was quoted as saying during the COP29 gathering in Baku.

Humans have traditionally lived in regions with a mean average temperature of 11°-15°C. However, research published by the 'Proceedings of the National Academy of Sciences' has warned that on the present trajectory, one-third of the global population is set to experience a mean

Global Temperature Anomalies in the month of June (Degrees Celsius)



average temperature greater than 29°C currently found in only 0.8% of the Earth's land surface. Climate change is not only generating more floods, fires, hurricanes and droughts, it is also fuelling the spread of infectious diseases, with a clinical study of 375 infectious diseases in 2022 revealing that 58% of these (including cholera, dengue, chikungunya, malaria and flesh-eating bacteria) were becoming more widespread due to global warming.

Unfortunately, any real progress in combatting climate change continues to be an uphill struggle as many countries are still failing to coordinate, integrate and implement their 'green' policies. This was highlighted again during the first week of COP29, where negotiations on developing a global climate finance target reached somewhat of a stalemate before being only partially rescued by frantic diplomatic efforts just before the end of the conference. *"A new climate finance agreement, that meets the needs of developing countries, is crucial in enabling them to set ambitious mitigation targets and pathways to achieving them. It must also ensure they can adapt and respond to the consequences of rising temperatures. There is no time to delay, as countries must submit their new national climate plans by COP30 in November next year,"* as said by Manuel Pulgar-Vidal, tGlobal Climate and Energy Head at the WWF, had warned during the event.

Another approaching headwind is the impending return of Donald Trump, who has already voiced his plan to withdraw the world's second-largest greenhouse gas emitter from the Paris Climate Agreement (for a second time) as soon as he re-enters the White House next year. He might even take it a step further by pulling out of the 1992 UN treaty which underpins the framework for the global climate negotiations each year. Unsurprisingly, this may well encourage some other countries to question why they should put in additional effort to reducing emissions when the US is simply walking away.

Summary

As outlined above, the year ahead poses a raft of challenges and risks. The incoming Trump 2.0 administration is certainly going to further shake up the old order, both domestically and internationally. Meanwhile, misinformation and cybercrime look set to continue to grow, amplified by artificial intelligence and the arrival of quantum computing, unless global leaders and multilateral institutions can come together and agree on a framework to better regulate and monitor the risks inherent with these two very powerful technologies. And finally, we are at risk of losing the long-term fight against climate change, which poses one of the greatest threats to all our futures but is sadly still being undermined by politics, misleading information and a lack of real engagement by many governments with their own citizens on this issue.

Please click here to view our recent publications on MENA and Global Markets

Sources found to be useful in researching this article:

Africa Centre, All Africa, AP, Arab News, Barrons, Bloomberg, BBC, Bulitin, Brookings, Check Point, Council for Foreign Relations, Control Risks, Chatham House, DW, Euronews, Earth.org, EIU, Fortune, Forbes, Foreign Policy, Forresters, Gartner, Goldman Sachs, Heritage Foundation, Iran international, IMF, New York Times, NPR, Politico, The Washington Post, The Financial Times, Fitch Solutions, The Guardian, The Economist, The Hill, The National, Times of Israel, NBC, Nature, Our World in Data, Stratfor, Stimson Centre, SCMP, Statista, VOA, Water Resources Institute, World Water, World Bank, WEF, WFP, WMO, United Nations, Zawya.

Real Estate

Global Real Estate Outlook 2025 – Global Confidence Returning but Unlikely to Match the UAE Market's Growth Trajectory

Neal Lindsay – Managing Director, Head of Real Estate Finance

Global Lens

Global real estate markets have undergone fundamental changes in recent years – a sentiment we also echoed at the outset of last year's submission. However, as we look ahead to 2025, the horizon appears brighter. The challenges of the pandemic, though responsible for significant structural shifts in certain markets, are easing – aided by a softening global interest rate outlook that is rekindling investor appetite.

The reduction in rates from the Fed principally, as well as other Central Banks, was readily awaited by the real estate community. After almost two years of muted transactional and debt market activity, conditions appeared to stabilise throughout the second half of 2024, with liquidity and appetite at least partially restored.

Rate cuts were not a silver bullet, however the industry has taken these first downward movements in rates as a signal that financial conditions can only improve from hereon in.

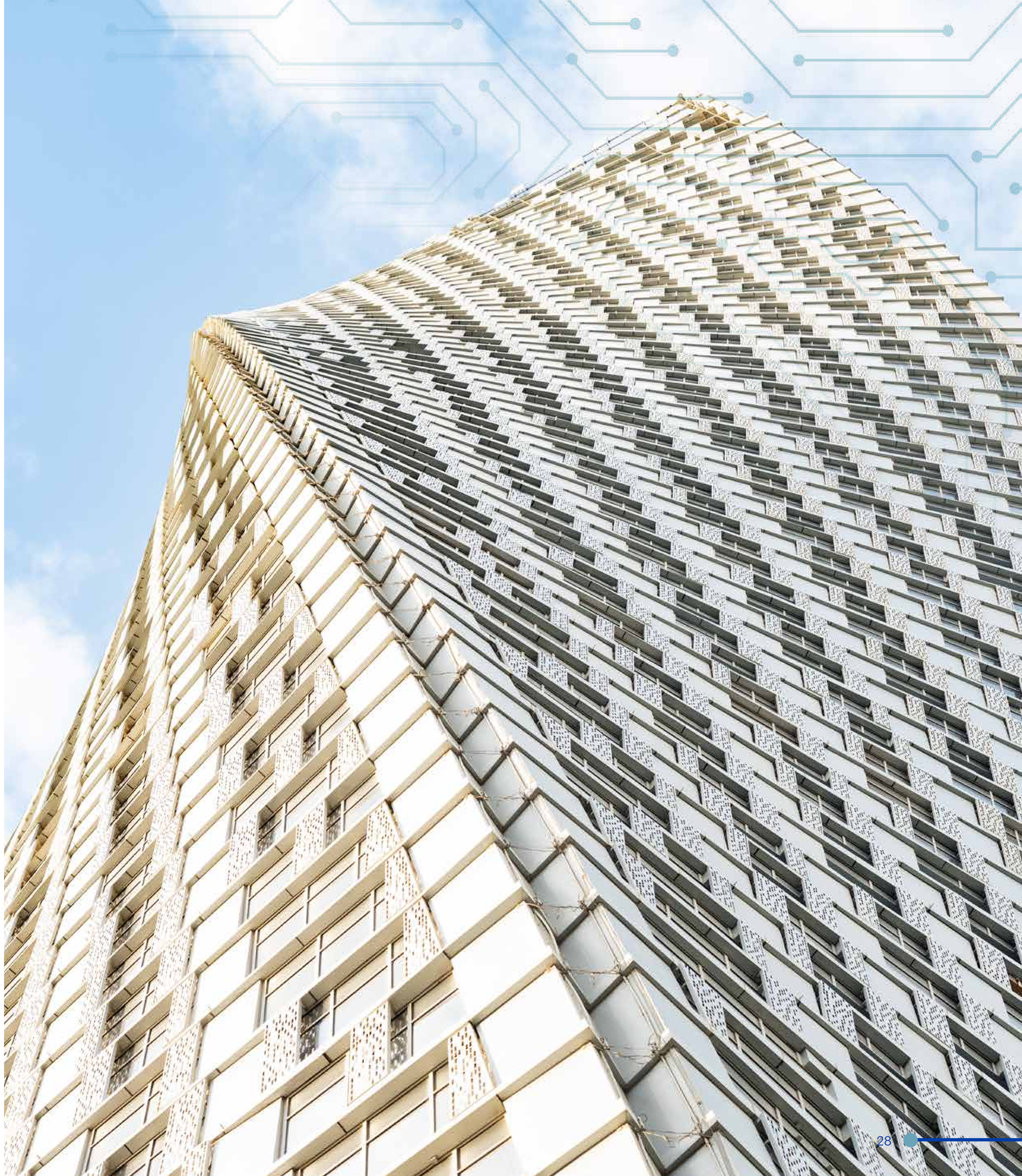
With interest rates set to gradually reduce, it is likely that we are at the beginning of the next expansionary phase of the real estate cycle, according to leading voices in the industry.

Improving Investment Appetite in Commercial Real Estate?

Was 2024 the bottom of the current commercial real estate market cycle?

According to Deloitte's 2025 Global Real Estate Outlook, the answer may well be yes.

Global real estate investors seemingly hit a pause last year. Dollar volumes fell by 36% year-on-year to USD 1.2 trillion, making it the weakest year for global investment since 2012. Retrenchment was most prevalent in the Americas (–52%) and Europe (–45%), demonstrated by a clear slowdown in deal volumes.



Global property valuation declines continued through the second quarter of 2024, down 6.3% year-on-year, though the pace of decline slowed from 7.7% two quarters prior. Whilst transaction activity is still muted, there is evidence that buyers and sellers are becoming more aligned on pricing estimates after two years of discontinuity.

Continuing with the pre-eminent PwC Emerging Trends survey, the share of respondents who expected an uptick in profits, categorised as "good" or "excellent" was almost two-thirds of the audience compared with just over one-third this time last year.

However, this revived positivity must be contextualized. Investors and financiers alike remain cautious, acknowledging that the halcyon pre-pandemic level of returns is not on the horizon just yet. Financing costs, whilst tapering from their recent high, are unlikely to return to 'lower for longer' levels.

In the previously referenced Deloitte Report, the 2025 survey reflected similar sentiments. Over 68% of respondents expect conditions for Commercial Real Estate (CRE) fundamentals to improve in 2025 across areas such as cost of capital, capital availability, property prices, transaction activity, leasing activity, rental growth and vacancies. Up from only 27% the previous year, this is a major boost in optimistic sentiment. Conversely, only 13% expect fundamental conditions to worsen, down significantly from 44% year-on-year.

The largest reversals came from expectations for cost of capital and capital availability. 68% of respondents expect financing to be less expensive and 69% said financing will be easier to obtain. Although these fundamental expectations vary widely by property type and regional focus, there appears to be some consensus on how the broader CRE sector might recover.

Global Investors have been more focused on domestic assets rather than international opportunities since the pandemic. Global investment made outside of company home countries reached an all-time high of 32% in 2019, according to Deloitte. That share has progressively dipped post-pandemic, and whilst survey respondents still overwhelmingly choose home jurisdictions as their primary focus, there are indications that cross-border investments will return.

Given the significantly positive performance of the UAE real estate market, particularly in the last 24 months, domestic investors investing overseas have done more so for geographical diversification reasons, rather than in expectation of superior returns.

Overall, various market commentators appear to be optimistic about 2025, however the real flourish may occur in the years to follow.

Interest Rates Impacts

There is a caveat that the sector must recognise - interest rates were low, to the point of sub-zero in certain markets – which has helped to generate enhanced returns in what may be argued an artificial fashion compared with true cyclical norms. For now at least, this era of cheap debt is over, and it is incumbent on the industry to know that rate movements are not isolated, but rather reflective of market expectations around economic and financial conditions.

The current rate cycle has resulted in an economic imbalance between major economies, as many economies are performing very well despite the higher rates. According to PwC, the credit goes to consumer spending, which continues to defy expectations for a slowdown by growing faster than all other components of GDP over the past year. Accordingly, bringing down inflation, whilst maintaining stable economic conditions is the order of the day for monetary policy makers – however, this is no easy task. Major publications including the Wall Street Journal, continue to forecast muted growth, avoiding recessionary pressures, as well as financial market pessimism.

These factors point towards a slower trajectory in CRE recovery.

However, what is more certain is that the variables are hardening. A prominent UK pension fund manager recently commented that people now know where markets are transacting and where financings can be done. There has aways been significant 'dry powder', so increased certainty on trading levels and financing conditions has helped to lubricate the market.

It is the price discovery that many commentators believe signals the beginning of a new cycle.

Debt Markets

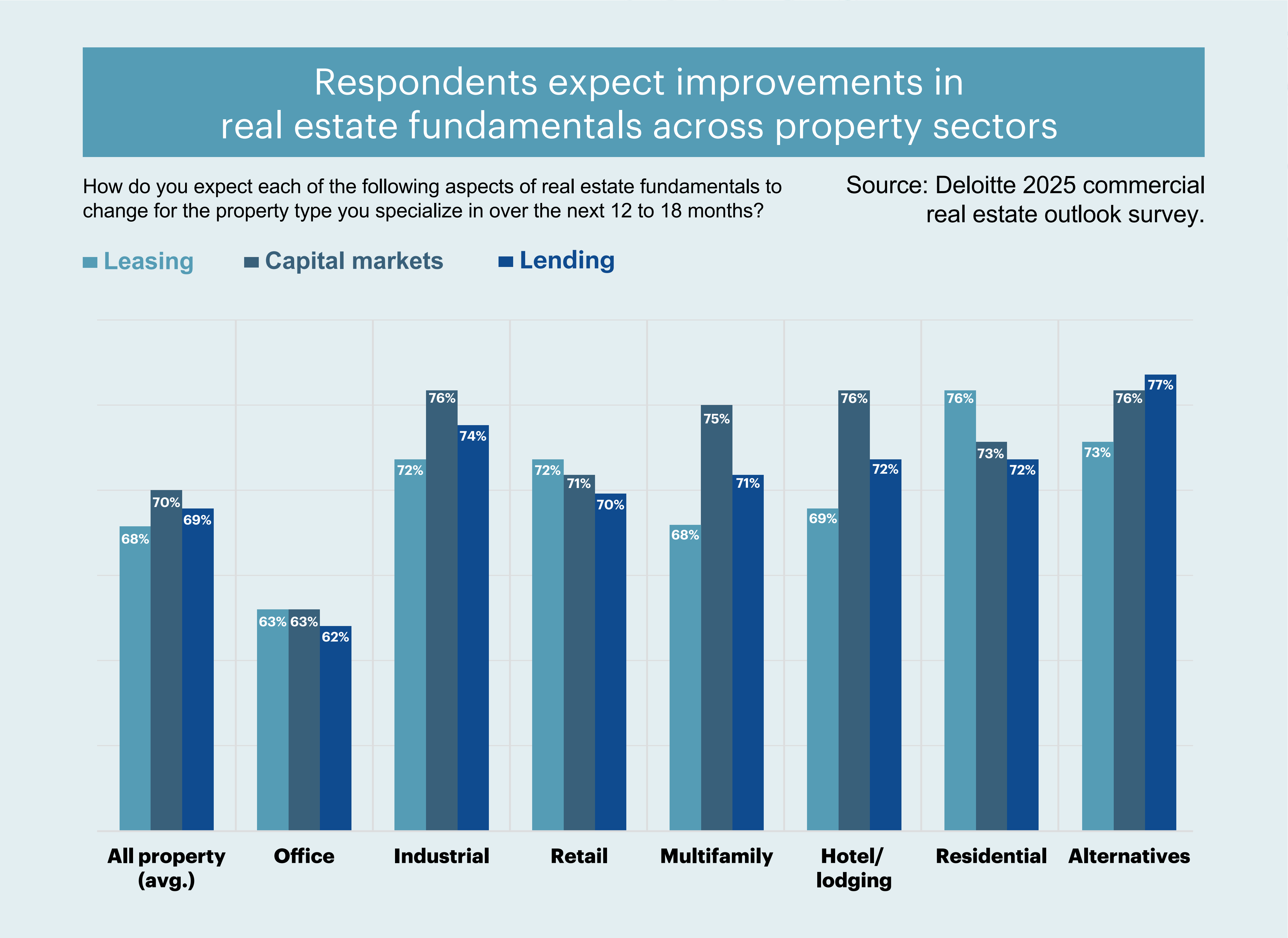
Investment capacity is one area, but without leverage, CRE markets can't fully function. Lender appetite appears to now be returning to balance across major markets.

It seems that the era of 'negative leverage' (when cost of debt is in excess of the yield on a property) is now behind us, leading to more transaction volume activity.

The US, which is considered the most transparent of all markets, saw the Mortgage Bankers Association ("MBA") forecast of over 25% increase in originations to USD 550 billion, close to 2018 and 2019 pre-pandemic levels. Forecasts indicate a return to normalised conditions within the next 12 to 24 months, which is a useful proxy for other mature markets.

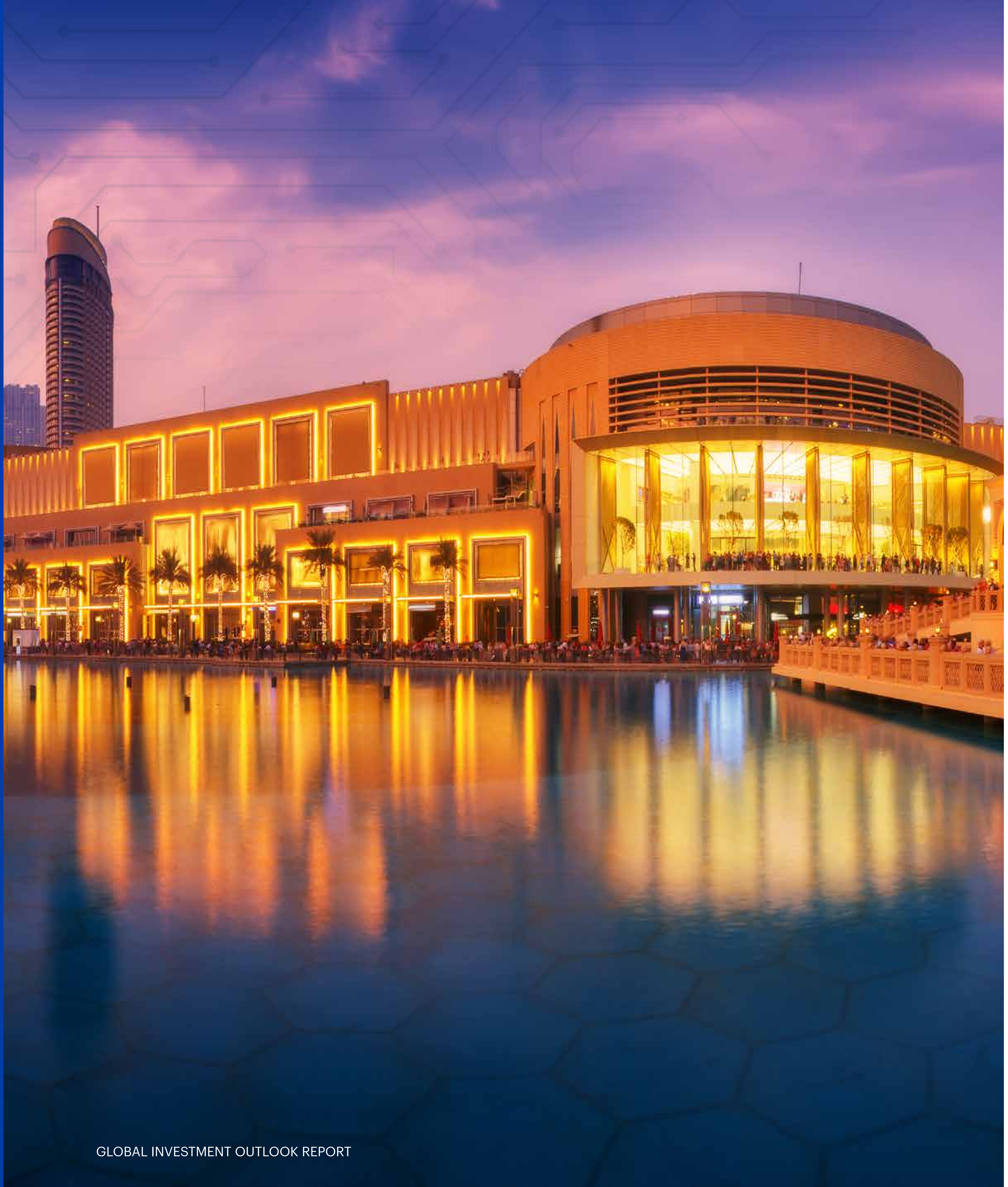
However, during the next 24 months, the impact of pre-pandemic originations and their maturities will have an important to role to play. This so-called 'maturity wall' was estimated to top USD 1.2 trillion in the US alone, and over USD 2 billion across all western markets. Undoubtedly, this includes a significant number of exposures where debt is greater than property values, most notably in the office sector.

Traditional bank lending will likely be more subdued compared to prior levels, as banks manage exposure to the sector amid regulatory scrutiny. However, for owners and investors, alternative capital sources like private credit are available to fill the financing void left by traditional lenders.



Note: Leasing includes expectations for growth in rental rates, leasing activity, and vacancies; capital markets include expectations for growth in property prices and transaction activity; lending includes expectations for cost of capital and capital availability; alternatives include digital economy, life sciences, and self-storage properties; residential includes single family rentals, senior housing, and student housing properties.

Deloitte. deloitte.com/us/en/insights/research-centers/center-for-financial-services.html



Sector Commentary

Global respondents across various market outlook reports appear most optimistic about leasing conditions for beds (including build-to-rent single-family, student housing, and senior housing); alongside industrial, hotel/lodging and alternative sectors, as well as capital markets activity (including digital economy, life sciences and self-storage) and lending for alternative property types. It appears investors are the least optimistic about prospects for the office sector, tied to lower-than-average expectations for improving transaction activity, elevated vacancies and more expensive borrowing costs.

As we highlighted above, there are profound shifts across pockets of the industry arising from post-pandemic ways of operating. The difference now is that we're approaching the point where these shifts have played out, or are at least on an identifiable, rather than uncertain, trajectory.

Without extoling the specific circumstances in tenant requirements and behaviours, vacancy rates are rising across many property types as supply from 2021 to 2023 outpaces absorption. Currently, the power lies with occupational markets as tenants look to lower rents or simply improve the quality of their premises, at times ahead of schedule. This creates significant bifurcation between the new(er) and older buildings. This is most prevalent in the office sector where the demand for new Grade A premises has seen rents outperform previous historical highs across most global gateway markets.

And it's not just offices. Retail, particularly in terms of shopping centers, is following this trend with older located premises struggling to keep up with newer space, despite extensive refurbishments in many cases. The most notable and perhaps unexpected chasms exist in the much heralded 'industrial' and 'multifamily' sectors. Whilst net absorption has been positive, aided by the long-term fundamentals underpinning "beds and sheds", the volume of new supply has outstripped demand. However, in both instances, this is likely to be short-lived against a slowing construction pipeline.

Alternatives, if they can still be termed as such, are playing out differently, with data centers players unable to build quickly enough to keep up with pent-up demand, largely driven by the boom of artificial intelligence (AI). These conditions are likely to continue as few sites exist that can support the significant power requirements, creating a non real estate constraint on supply that will continue to restrict development.

Sustainability and Green still in flavor?

The dichotomy between long-terms benefits and short-term returns remains the challenge of sustainability-led investments. According to the Deloitte Outlook, only 22% of global respondents believe that sustainability is "embedded in their organisational DNA and core business strategies" and "will provide long-term benefits".

The success of 'greening' initiatives centres on how capital investments are prioritised for maximum impact and how quickly firms can transition from 'brown to green'. Investors may be wary of aged, carbon-intensive assets that are reliant on fossil fuels. However, retro-fitting assets could hold immense potential to meet both investment returns and climate objectives.

If property managers can mitigate asset obsolescence risk through strategic sustainability-led strategies that deliver incremental cost benefits, then a positive environmental impact, without compromising long-term financial returns, may be achievable.

Domestic Lens – Momentum to be maintained

Trends and discussions in mature Western markets, especially in the US, UK, and Europe, reflect a common global story. However, the UAE's domestic market tells a very different post-pandemic tale.

The UAE has been a key beneficiary amid regional challenges with capital flows arising from affected countries, particularly into the Emirate's real estate market. And while the residential market is the most public high performer, the office, hospitality and retail sectors have also evidenced solid growth.

In the nine months to September 2024, the total number of residential transactions in Dubai topped 125,000, up more than 36% from 93,000 the previous year. The bulk of this growth was driven by rising off-plan sales, which were up by over 50% on the same period according to data from CBRE. It is likely, given the lack of available supply, that the performance of this sector in Dubai will continue to remain positive, but a normalisation in growth is likely to emerge (though we said the same thing this time last year!)

While the performance of the residential market in Abu Dhabi has also been strong, the drivers are somewhat inverse in nature, with growth coming from a 45% rise in ready sales rather than off-plan, which typically have a lagged delivery in data. Regardless of the nature of sales, it is clear that the rental market has been very strong, with growth across both locations and in both villa and apartment communities.

With an increased supply of hotel keys, the UAE hospitality market has maintained a positive year-on-year performance, with the country delivering the highest average occupancy within the GCC region. Records are on target to be broken for visitor numbers overall, with Dubai airports likely to set new highs in terms of passenger traffic. There is no immediate evidence to suggest this trend will be reversed in 2025, given the growing popularity and increasing awareness of the UAE's hospitality industry (including some effective celebrity endorsement in Abu Dhabi).

Unlike other countries, where the office market remains highly fragmented, the UAE has seen strong rental growth, regardless of whether its Grade A, B or indeed Grade C property. A lack of supply, particularly in Grade A stock, is expected to push the market to even higher levels in 2025, with occupancy already at 93%.

The rising tide has indeed lifted all boats with the retail, industrial and logistics sectors enjoying continued expansion, thanks to the strength of the non-oil economy. At the same time, a highly competitive and borrower friendly lending market is expected to drive increased capital market activity across all sectors in 2025.

In summary, the outlook for CRE remains largely positive. However, the pace of growth in more mature markets is unlikely to match that of the UAE, where a highly proactive and dynamic federal government can make decisions to support the market more expeditiously.

We expect to see opportunities for increased investment in many forms of the housing sector, and with emerging ones such as cold storage and data centres (despite their lack of purported ESG credentials). The only notable risk to the continued expansion of the market, in our view, is a reversal in the direction of interest rates or geopolitical issues escalating to the point of wider disruption.

Crude Oil

The Oil Market – 2024/25

Glenn Wepener – Chief Strategist, Market Insights & Strategy

This past year was another rather mixed one for crude prices, with geopolitical risks and OPEC+ cuts providing support, whilst ongoing uncertainty on the outlook for global demand, especially with China's economic recovery continuing to look tepid at best, combined with a strong US dollar, has kept the upside limited too. In this piece, we summarise the current state of the oil market and what may lie ahead in 2025 and beyond.

Demand & Supply

It should be noted that price movement during 2024 did not completely reflect market fundamentals and was driven in part by speculative paper positioning. Admittedly, demand from China (the world's largest crude importer) has been weaker than expected due to various reasons, including its still sluggish economic recovery, as well as growing EV adoption, which has led to a reduction in domestic demand for transport fuels there. However, global demand for petrochemicals continues to expand, particularly in India, which also looks set to overtake China as the primary driver of oil demand growth by 2027. According to BP, India will account for 25% of global consumption growth in 2024 and 2025, supported by the country's petrochemical sector, which is expected to grow at an average rate of 11% per annum over the next decade as rapid urbanisation and widening middle class has triggered a jump in demand for products like polymers, synthetic fibers and plastic.

Certain other areas of the products' market are also looking reasonably healthy, with November's fuel oil prices in Asia and Europe at their highest seasonal level since 2022 and 2010, respectively. Meanwhile, the global jet fuel market is predicted to expand by a compound annual growth rate of 12.19% until 2029, supported by strong air travel demand which has seen this year's passenger numbers rise above those achieved in 2019. So, despite weakness in China and rather nascent economic growth in Europe, the EIA stated in its December 2024 'Short-Term Energy Outlook' that it sees overall demand for oil and related liquids averaging 103.03 million bpd in 2024 (another new record) with this forecast to rise to 104.32 million bpd in 2025. On the supply side, the EIA

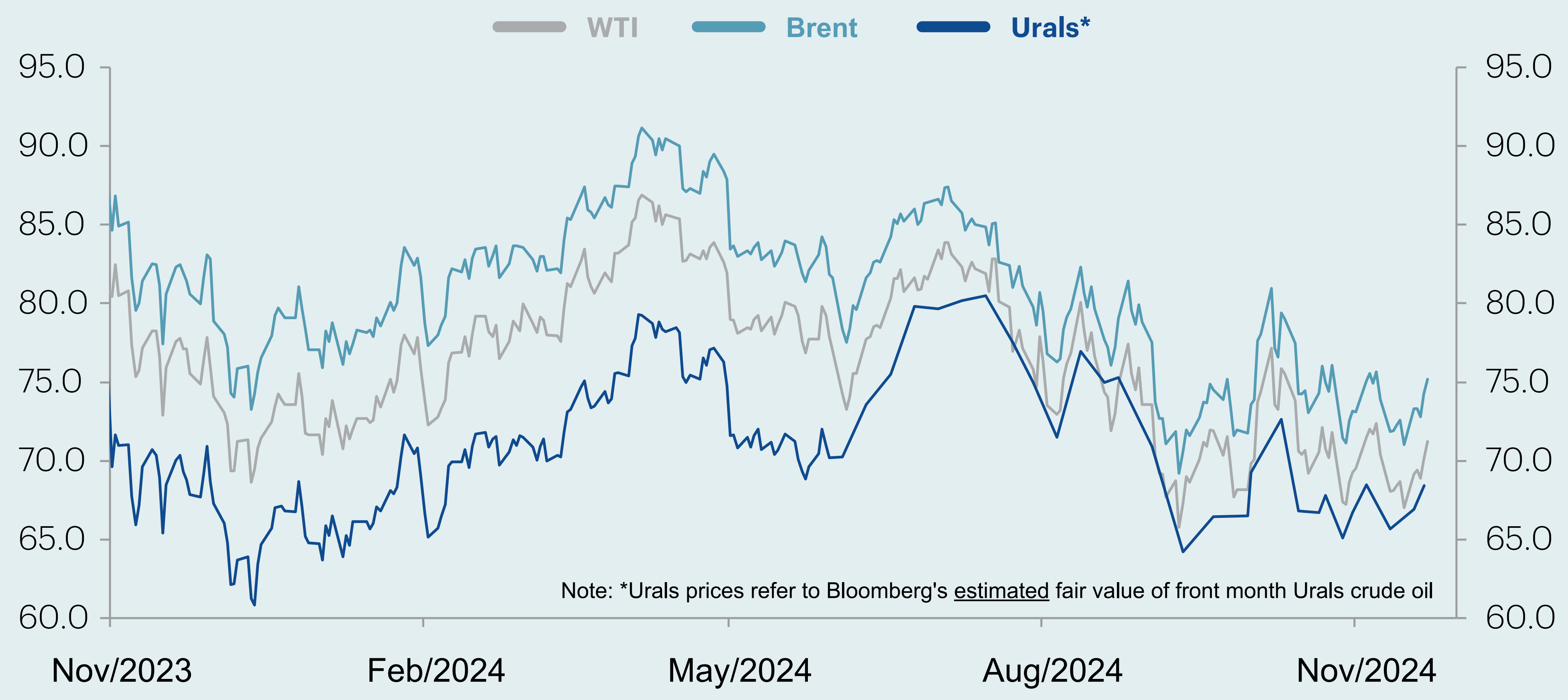
expects this to have averaged 102.59 million bpd this year, although it also sees it expanding to 104.24 million bpd in 2025.

US Production

According to data published by Baker Hughes, the number of active oil rigs operating in the US on the 22nd of November 2024 stood at 479, which is 21 rigs lower than the same time last year and more than 70% below the peak achieved back in 2014. Meanwhile, as we predicted in our previous annual outlook, it does appear that the very sharp rate of production growth in 2022 and 2023 has slowed this year with total US output looking set to average 13.24 million bpd in 2024 compared to 12.93 million bpd in 2023. Admittedly, the EIA sees this rising to 13.50 million bpd next year, albeit down from their previous forecast of 13.67 million bpd.

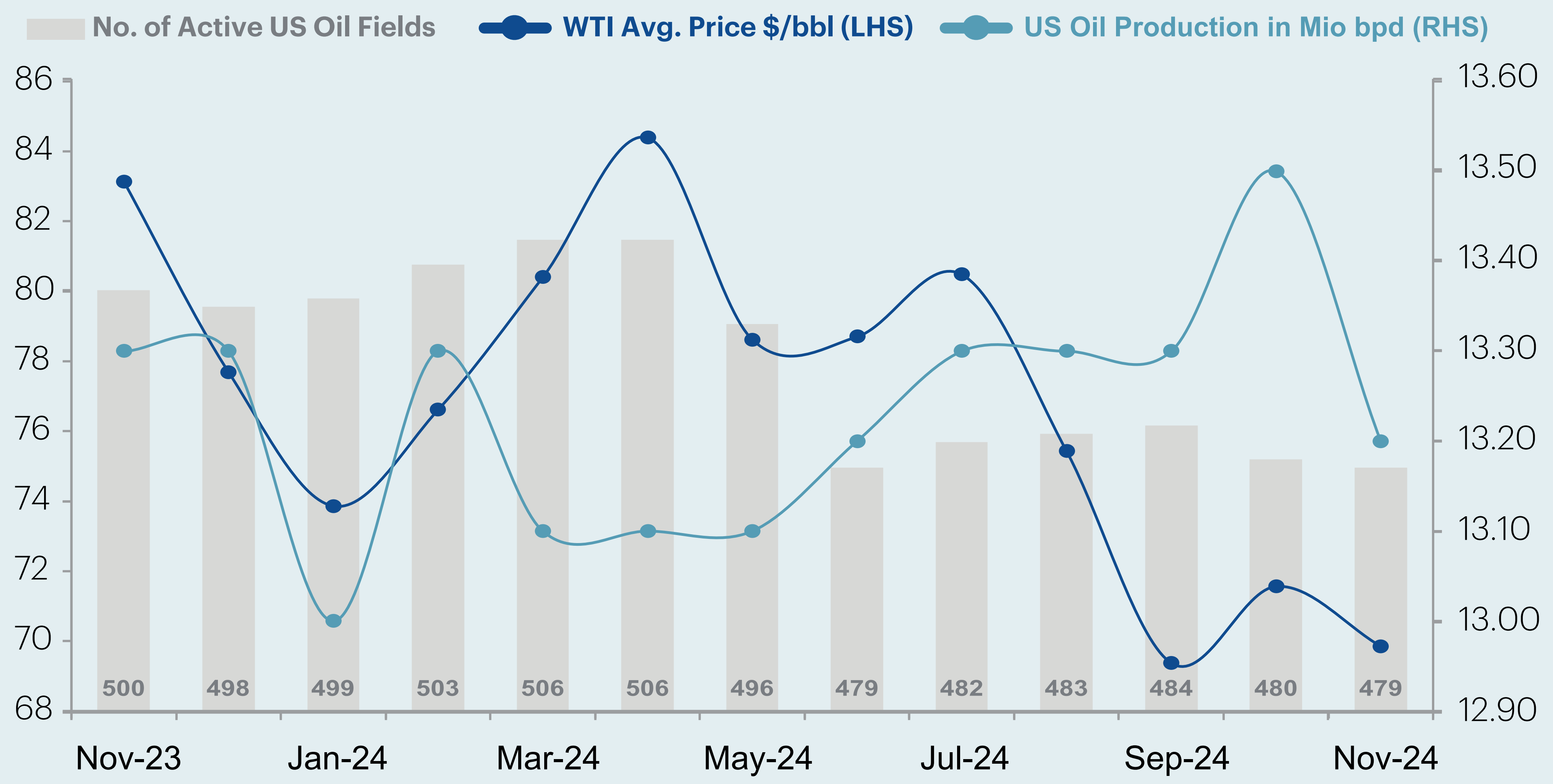
One key question for 2025 is what impact Donald Trump's more friendly oil and gas policies will have on US production in general. At this point, we believe any easing of regulations around drilling activity will probably benefit the domestic gas sector more than crude, at least initially. Over the past few years, shale oil operators have been far more focused on generating positive cashflows than expanding their activities and have thus restricted output to their most efficient and productive wells. This was highlighted in comments made by the head of Exxon's upstream division, who suggested, during the November 2024 Energy Intelligence Conference in London, that, *"We're not going to see anybody in 'drill, baby, drill' mode. A radical change in production is unlikely because the vast majority, if not everybody, is focused on the economics of what they're doing."* Another less discussed issue worth mentioning is that US refineries were originally built to process heavier crude grades and consequently can only absorb a certain amount of the lighter shale oil in their blending processes.

Oil Price Performance in US$ - Nov 2023 to Nov 2024



Oil Production vs Active Rigs vs WTI Price

Source: US DOE/ Baker Hughes/FAB



Global Inventories

Commercial oil inventories in the US were sitting around 423 million barrels at the end of November 2024, while the country's gasoline stocks stood at 214 million barrels which are roughly 5% and 4% below their five-year seasonal averages respectively. Meanwhile, OECD crude inventories are also below their average level for this time of year, with the IEA's most recent monthly report stating that these had fallen by 36.40 million barrels to 2,799 million barrels in September 2024, which was 95 million barrels below the five-year average.

OPEC+

The OPEC+ grouping continues to be the most important support platform for crude prices but is still underestimated by many analysts when it comes to the determination of the organization to keep prices stable. At their final meeting for 2024, members agreed to extend the additional production cuts until the end of Q1 2025, which is logical because it will give the market more time to develop a better picture on the potential economic impact of Trump's tariff policies and if he will indeed reinstate maximum pressure on Iran. We also don't feel that this latest extension should be viewed as being driven by growing expectations of weaker physical demand by OPEC+ but rather as the group's attempt to manage current trader sentiment. Admittedly though, and aside from the US, certain other non-OPEC+ members have managed to increase their oil and condensate production this past year. This includes Canada, whose average daily output of its heavy sour grade crude rose to 5.76 million bpd in 2024 (driven by the expansion of the Trans Mountain pipeline) of which more than 4 million bpd is exported to the US. Meanwhile, Guyana is now producing an estimated 660,000 bpd compared to 400,000 bpd last year.

Geopolitics

Whilst a 60-day ceasefire in Lebanon recently came into force, and fresh attempts are being made to establish a similar halt to the fighting in Gaza, the overall geopolitical environment in the Levant region remains fragile. The risk of a fresh exchange of missile fire between **Iran** and **Israel** lingers, and while we still feel a full-blown war between these two adversaries remains at the lower end of probability, it cannot be completely ruled out. The sudden threat by Tehran to speed up its uranium enrichment program in response to the IAEA's recent censure of the country would almost certainly be a red line for Jerusalem and might just encourage Netanyahu's right-wing administration to act, particularly perhaps during the so-called 'lame-duck' period before Biden departs the White House and Donald Trump take his seat in the oval office again. The incoming Trump administration also seems likely to restore its maximum pressure campaign on Tehran in 2025, which in turn would have an impact on Iran's oil exports that are estimated to have averaged 1.70 million bpd during the first ten months of 2024, compared to 970,000 bpd in 2019. Then over in the semi-autonomous Kurdistan region of **Iraq**, hopes that its own 450,000 to 500,000 bpd of oil exports via Turkey could restart in early 2025 appear to have been dashed again after the Iraqi parliament failed to finalise and approve an extraction and transport costs agreement between Irbil and the federal government in Baghdad. One of the main sticking points was an apparent disagreement over the actual cost of extraction, with one KDP MP quoted as saying that an international company would need to visit Kurdistan's oil fields "*to assess the cost of oil extraction, in line with the budget law amendment and a political agreement between the two sides*." This specific region's oil exports have been suspended since March 2023.

Meanwhile, **Russia** has been able to stabilise its crude output at around 9 million bpd this past year, although its seaborne oil exports dropped by an average of 150,000 bpd in November to its lowest level since July 2024, and this was due in part it seems to lower demand for Russian crude by one of its key buyers, India. However, Russia's oil product exports averaged 2.30 million bpd in November, an 18% increase compared to October. If the war in Ukraine ends in 2025, which does appear to be likely, it still remains to be seen how quickly a peace deal could be reached, and even if a lifting of the G7 sanctions on Moscow were to follow, it's unlikely there would be a sudden and significant rise in Russian oil supplies hitting the market. Another issue to watch is how the US President-elect handles relations with **Venezuela**. During his first term in office, Trump waged a pressure campaign against Caracas with limited results, but this time around, he may just attempt the same strategy again, especially as President Maduro appears to be in a far weaker political position now then he was back in 2017 and which in turn would squeeze the South American country's oil production. Alternatively, Trump might perhaps see a potential deal on the issue of migrants in the offing. An estimated 8 million Venezuelans have left their country in the past ten years, with many attempting to enter the US, so a deal with Maduro on this specific issue, which was one of Trump's campaign promises, cannot be ruled out either.

Across in Africa, **Nigeria's** oil and condensate production averaged an estimated 1.30 million bpd during the first three quarters of 2024, which was still below its OPEC+ output allocation of 1.50 million bpd. The oil and gas sectors are of crucial importance to the Nigerian economy, contributing more than 85% of export earnings and about 30% of budget revenues. Unfortunately, the country is still battling to end oil theft and pipeline vandalism in the Niger Delta, as well as the very high cost of extraction, which the House of Representatives Committee on Finance, said is hovering around US$48 a barrel. And then finally, **Libya's** oil and condensate output recently hit a record high of 1.386 million bpd, but challenges remain there too. These primarily concern the ongoing fragile security situation, highlighted by the disruption to around 50% of Libya's oil output back in August and September 2024 due to blockades at several key fields and linked to the longstanding political divisions between the country's two rival administrations.

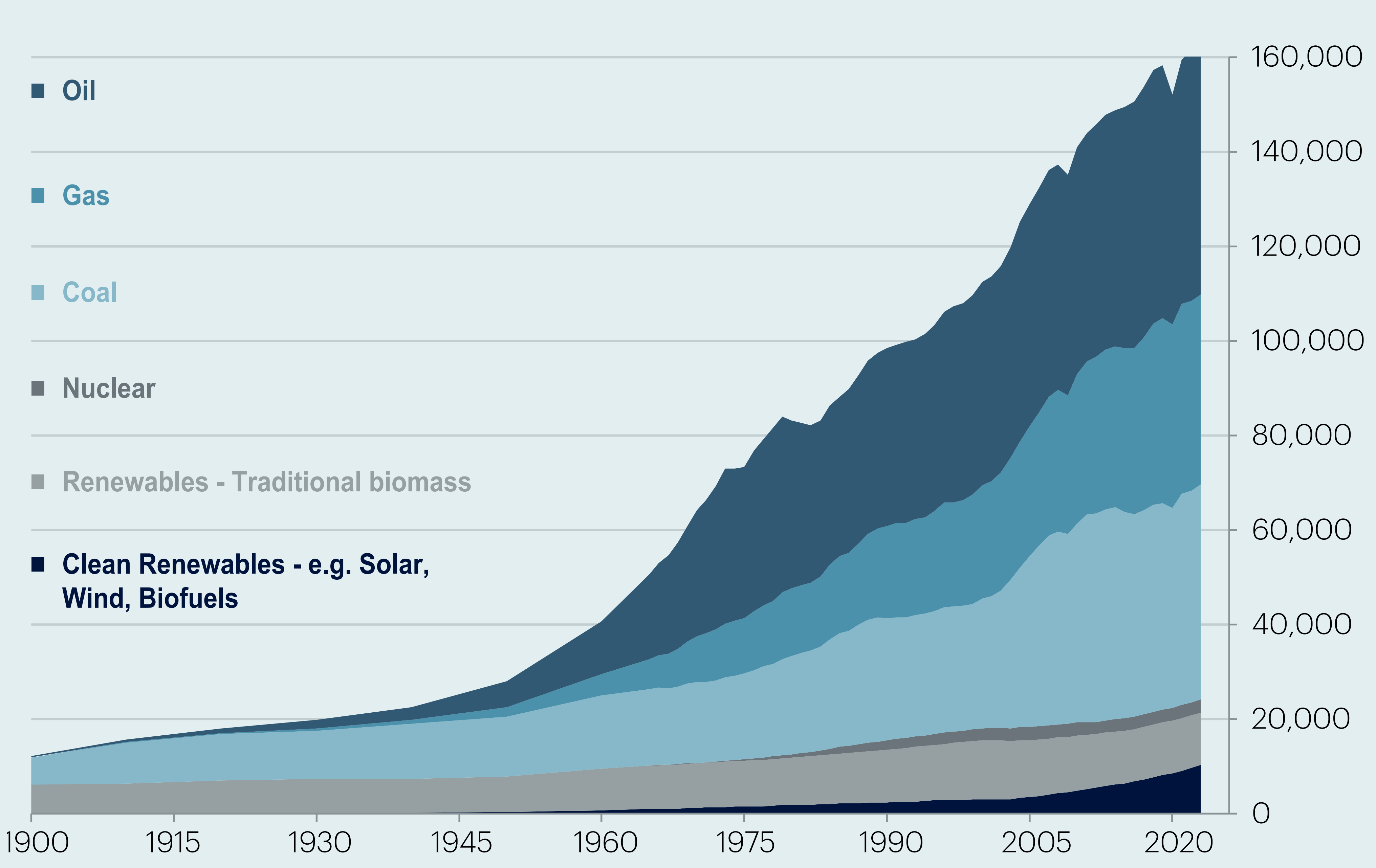
The Energy Transition – 'Peak Oil Demand is Yet to Appear'

Global energy consumption grew by 2% y/y in 2023 and despite an increase in the use of renewable and clean energy, fossil fuels still made up 81.50% of the energy mix, which was only slightly lower than 2022, according to data published by S&P Global. Oil, gas and coal therefore remain the world's primary energy sources, and although the IEA expects the demand for these three fossil fuels to peak by 2030, we still feel that this prediction remains somewhat optimistic. In fact, due to the continued growth of both the petrochemical and specialised fuel sectors, as outlined above, we currently do not see the global demand for crude oil itself peaking until 2035 at the earliest.

OPEC is even more assertive in terms of its own views on peak oil demand, with the organisation's Secretary-General, Haitham al-Ghais, suggesting back in September 2024 that *"there is no peak demand on the horizon, ,"* and adding that *"the fantasy of phasing out oil and gas bears no relation to fact."* Meanwhile, the respected research house, Wood Mackenzie opined in its latest Energy Transition Outlook, that *"progress toward a low-carbon energy system is stumbling on multiple fronts, leaving the world dependent on fossil fuels for longer,"* with Jonathan Sultoon, Head of markets & energy transition at Wood Mackenzie, also pointing out that *"China's the lower-cost producer in clean tech. Either the rest of the world needs to rely on Chinese manufacturing to speed the transition, or the West will pay a higher cost or, in fact, delay the transition. And it looks far more likely to be that latter situation than the former."*

Global Fuel Consumption – 1900 to 2023 in Terawatt Hours

Source: Our World in Data

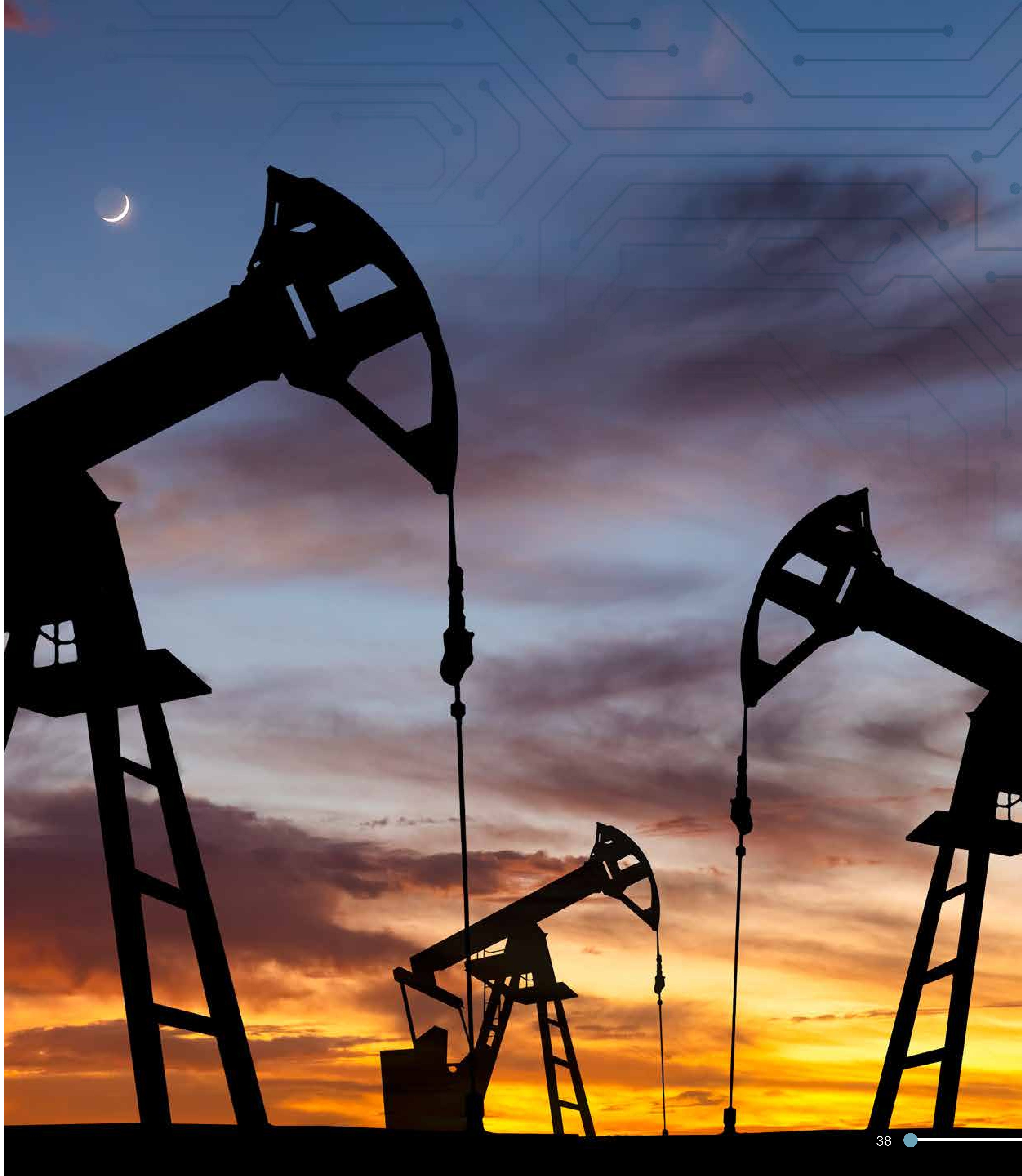


The World Economic Forum has also acknowledged in its own report that the overall speed of the energy transition had slowed this past year, stating that *"economic volatility, heightened geopolitical tensions, and technological shifts have all had an impact, complicating its speed and trajectory."* However, whilst the pace of transition is clearly facing fresh challenges in many places around the world, it's perhaps also worth highlighting that both the UAE and Saudi Arabia continue to make significant progress in increasing their own domestic power capacities, which are provided by cleaner and more sustainable sources of energy. This was underlined by the two GCC countries recently improved positions on the WEF's energy transition index, which measures a country's policy environment, the level of political commitment and the investment climate, as well as access to capital, consumer engagement, and the development and adoption of new technologies.

Conclusion & Forecast

At the time of writing, Brent had managed to average just under US$81 a barrel in 2024, but as outlined above, there are numerous factors to consider when attempting to predict the average price of crude in 2025. On the one hand, the IEA expects global oil supply to exceed demand, there is ongoing uncertainty on the outlook for the global economy, especially if a major trade war breaks out should Donald Trump's tariff plans backfire, and the US dollar looks set to remain strong going into the new year. Conversely, the EIA predicts a more balanced market in terms of supply and demand; OPEC+ has agreed to extend its current output cuts into Q1 2025 (which should help further reduce global inventories), the rise in US shale oil production has slowed as has it seems the global energy transition, while the demand for petrochemicals and certain fuel products such as kerosene looks set to expand. There was also a glimmer of light from recent data releases out of China, which showed that the country's crude oil imports had risen in November 2024 for the first time in 7 months, to average 11.81 million bpd a 14.30% increase compared to the same period in 2023.

Therefore, bearing all this in mind and barring any major surprise on the geopolitical front, we have slightly adjusted our original 2025 forecast for Brent and now look for it to average US$75 next year. On a side note, this would mean a WTI price of about US$70, which roughly equates to a US regular grade gasoline price of about US$3.00 per gallon, a level that might just keep President Trump satisfied and away from applying political pressure on OPEC.



GCC/MENA Market Outlook

GCC Equities Outlook

Continues to Unlock Growth Opportunities

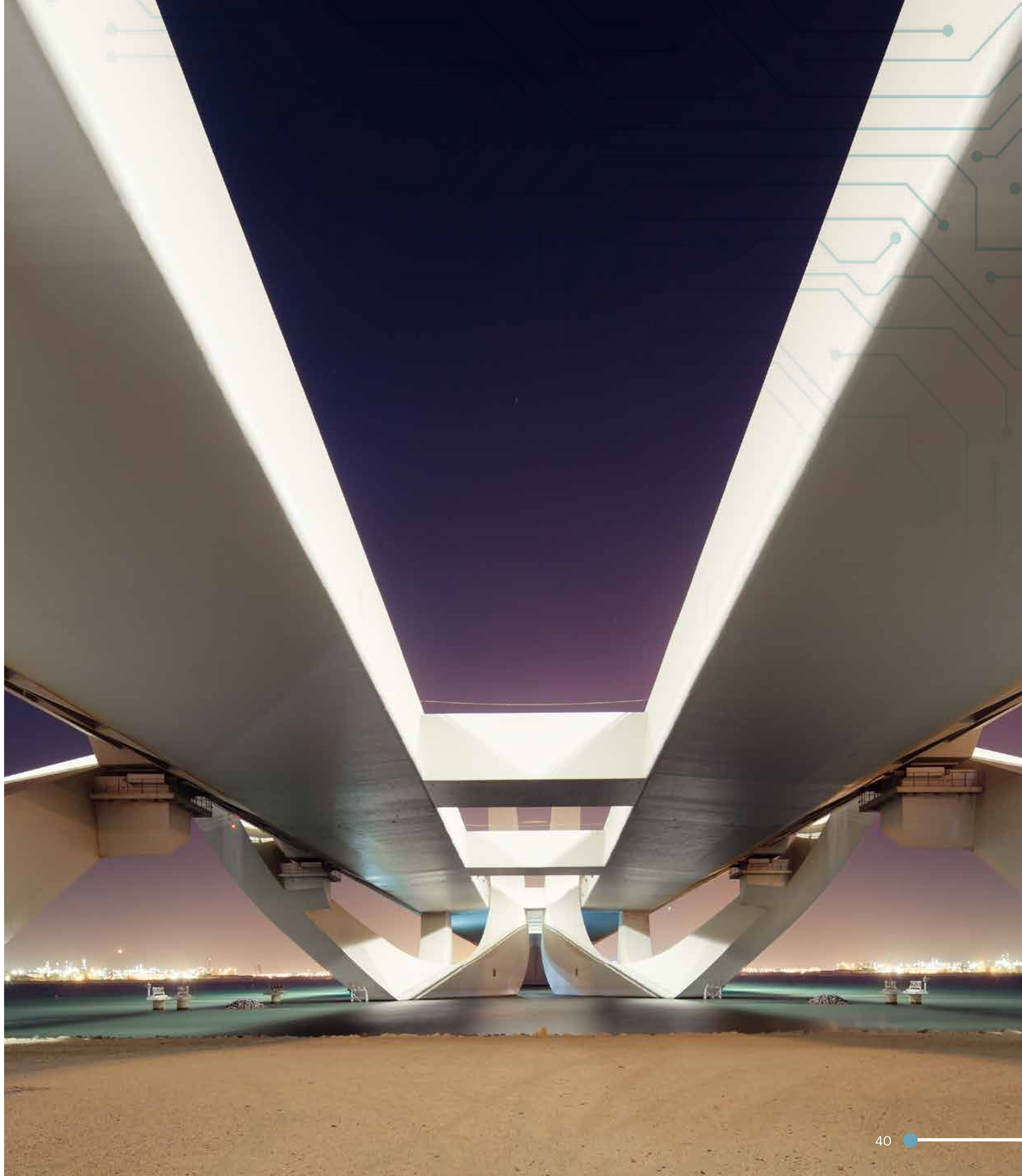
Musa Haddad – Head of Fund Management & Acting Head of Asset Management
Ramesh Tiwary – Executive Director, Equities Management, Asset Management

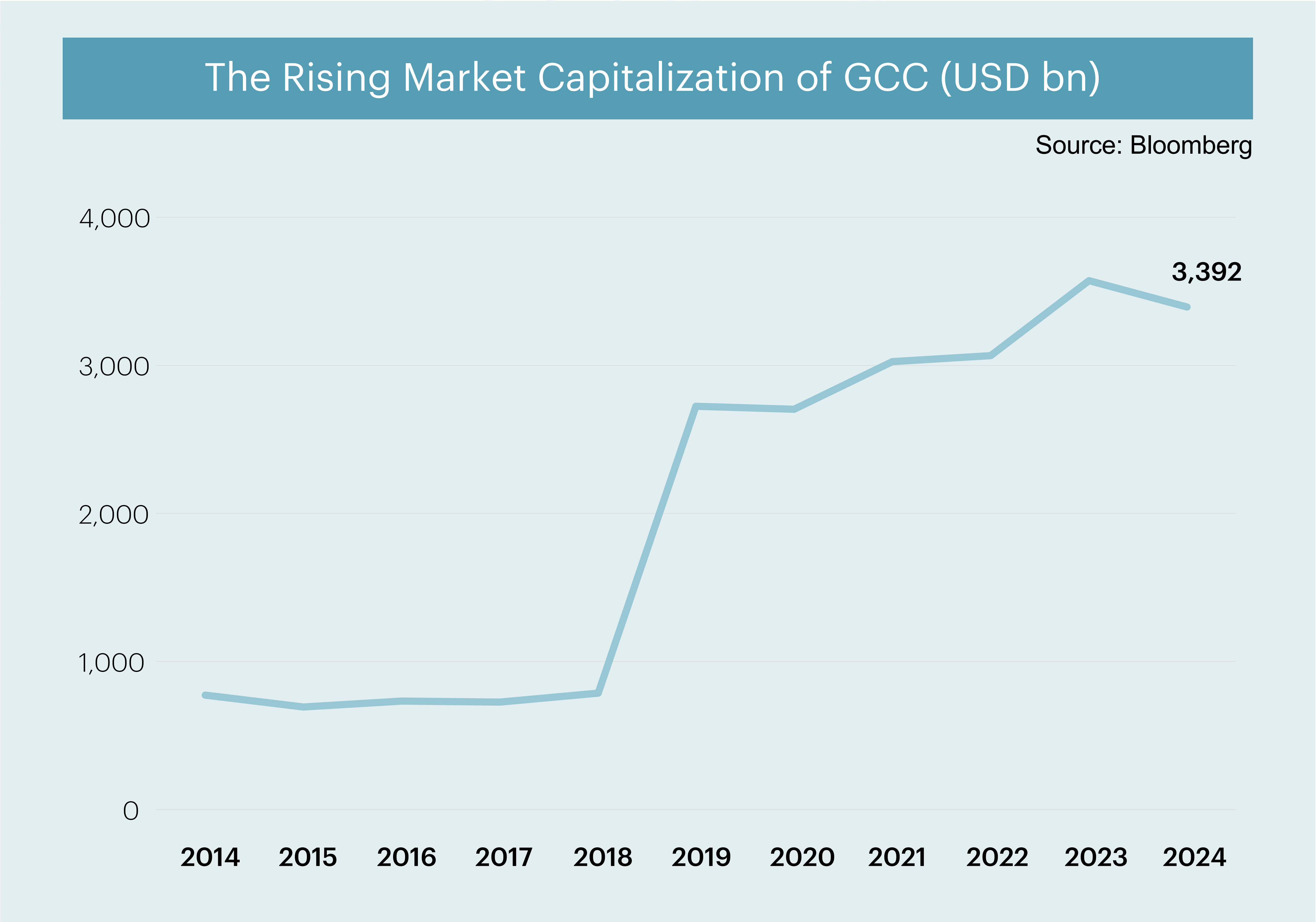
Fuelled by economic diversification, enhanced regulatory frameworks, and robust growth prospects, Gulf Cooperation Council (GCC) markets are expected to present a myriad of investment opportunities in the months to come. The GCC, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE, has been undergoing significant transformations aimed at fostering sustainable economic growth through infrastructure development, smart city initiatives, renewable energy projects and a burgeoning tourism sector. Here, we explore the key drivers of growth and the investment opportunities likely to emerge in the GCC equity markets as we move into 2025.

The Vision 2030 initiatives in Saudi Arabia and the UAE's Vision 2031 underscore the commitment of both nations to economic diversification, paving the way for growth beyond oil. The UAE's national agenda encourages innovation and a digital economy, supporting tech startups and SMEs.

These initiatives are likely to create an influx of new ventures and stimulate growth in various sectors, creating attractive investment opportunities for equity investors.

The anticipated growth in gross domestic product (GDP) across the GCC is expected to be robust, bolstered by rising / stable oil prices and enhanced non-oil economic contributions. Countries like Saudi Arabia and the UAE have invested heavily in sectors such as technology, healthcare and financial services, which are projected to fuel future GDP growth.





Investment Opportunities

Infrastructure Development

Major infrastructure projects across the GCC are bolstering economic growth. These projects not only improve connectivity and regional infrastructure, but also enhance the investment landscape by attracting foreign direct investment (FDI). Investors need to keep an eye on companies involved in construction, materials supply and technology, which stand to benefit significantly from these developments.

Technological Advancements

Digital transformation across the GCC is rapidly accelerating, partially propelled by the pandemic. With increased investments in information technology, fintech and e-commerce, there is a wealth of opportunities for equity investors. Companies focusing on innovative solutions, such as artificial intelligence (AI), big data, and cybersecurity, blockchain and e-commerce are poised for substantial growth. Regional governments are keen to build up their inhouse capabilities in the tech space, which remains key for future growth and to tackle security-relate concerns.

Sustainable and Renewable Energy Investment Trends

Sustainability is at the forefront of global investment trends, and the GCC is no exception. Governments are actively promoting environmentally friendly practices, and this shift is creating new investment avenues in sectors such as renewable energy, waste management, and sustainable agriculture. The GCC is increasingly recognising the importance of sustainable energy sources. Saudi Arabia and the UAE are investing heavily in solar and wind energy projects, aiming to meet their energy needs sustainably. The demand for ESG (Environmental, Social, Governance) compliant companies is rising among investors, indicating a significant opportunity in the sustainable finance space.

Healthcare

The healthcare sector is set to witness exponential growth due to expanding populations, shifting demographics and increased health awareness. GCC governments are investing in improved healthcare infrastructure and services, which translates to numerous investment avenues in hospitals, pharmaceuticals and telemedicine.

Tourism and Hospitality

With various initiatives aimed at boosting tourism, including mega-projects like NEOM, Expo 2030 and FIFA 2034 in Saudi, the hospitality sector is primed for growth. Investors can explore opportunities in hotels, entertainment complexes and ancillary services catering to an increasing number of tourists.

Real Estate

Real estate remains a cornerstone of investment in the GCC. The region's rapidly growing population and position as a preferred destination means a continued demand for residential and commercial properties. The introduction of regulatory frameworks, such as property ownership laws for foreigners, has opened the market further, making it an attractive option for domestic and international investors.

Stable law and order, world class infrastructure and stable currency makes the real estate investment enticing.

Market Challenges and Risks

The GCC region, while stable in comparison to other parts of the Middle East, is not devoid of geopolitical risks that can affect market stability. Investors must remain vigilant and informed about regional dynamics and their potential impact on investment portfolios.

Equity Market Reforms

The ongoing regulatory reforms across GCC countries are designed to enhance transparency, increase investor protection and attract foreign investment. The introduction of new listing rules and corporate governance standards is expected to strengthen the equity markets, making them more appealing to international investors. As these reforms come into force, we anticipate increased confidence among investors, leading to an uptick in equity market participation.

Sustainability Concerns

As global investment trends shift towards sustainability, companies within the GCC must embrace corporate social responsibility and sustainable practices. Investors increasingly favour companies with clear ESG strategies while making investment decisions.

Country Overview:

Kingdom of Saudi Arabia

In 2024, non-oil economic growth momentum moderated with an estimated non-oil real GDP growth of 3.5%, which is expected to grow further to 4.4% in 2025. However, overall real GDP growth for 2024 is estimated at 1.7%, due to cuts in oil production, alongside a fiscal deficit of 3.3%. The primary driver of real GDP growth remains the expansion of the non-oil economy. Saudi manufacturing PMI data was quite strong in 2024, with an average reading above 55, and the latest at 59 in November 2024 – indicating ongoing recovery.

Economic diversification continues to gain momentum in Saudi Arabia, with government policies and reforms geared towards reducing the country's dependence on hydrocarbons. According to MEED, projects worth USD 300 bn are currently being executed in Saudi, while projects worth USD 720 bn are in the planning phase and projects worth USD 833 bn have been budgeted, but unallocated. Many key events are planned to be organised in Saudi, including the Asian Winter Games 2029, World Expo 2030 and FIFA World Cup 2034, which will all boost further investment going forward.

The IMF highlighted Saudi Arabia's tourism sector as a major contributor to the country's economic diversification in its 2024 review. Saudi Arabia succeeded in attracting 100 million visitors annually in 2023, seven years ahead of schedule as part of its Vision 2030 target. Tourism revenues reached USD 36 billion in 2023, with net tourism income increasing by 38%. The sector's direct and indirect contribution to GDP reached 11.5% in 2023, which is expected to grow to 16% by 2034.

Aggregate earnings for the Tadawul Index are expected to grow at 11.83% in 2025, following an earnings increase of 9.03% in 2024. The Tadawul Index has relatively underperformed, achieving a year-to-date (YTD) return of 3.82%. Saudi equities are currently trading at a prospective P/E multiple of 15.33x for 2025, based on Bloomberg's consensus earnings growth estimate of 11.83%. The valuation represents a 15.4% discount compared to the Saudi market's three-year average forward P/E multiple of 18.13x.

United Arab Emirates

The UAE continues to benefit from robust economic activity, driven by population growth resulting from structural reforms, labour laws changes, new visa options and a favourable tax regime. As a global logistics and transportation hub, as well as a major tourist destination, the UAE has reaped significant gains from the global resurgence in travel, tourism, and hospitality. International visitor numbers have surpassed pre-pandemic levels with rising hotel occupancy rates further boosting economic growth.

In 2023, the UAE's real GDP grew by 3.6% and is expected to rise by 4% in 2024 and 6% in 2025, according to the Central Bank of the UAE. Non-oil GDP growth remains particularly strong, estimated at 5.2% in 2024 and 5.3% in 2025.

The UAE real estate market remains vibrant, with record-breaking transaction levels and rising property prices. Government reforms, such as the issuance of long-term visas for expatriates, have fuelled higher demand. In Dubai, residential transactions exceeded 125,000 in the first nine months of 2024, up by more than 36% compared the same period in 2023. Sales values reached AED 86 billion for off-plan transactions and AED 33 billion for ready properties. Total residential sales for Q3 reached almost AED 120 billion, up by more than 30% compared to the same period for the previous year.

The current lack of available supply continues to support strong performance in Dubai's residential sector with both sales and rental markets expected to remain positive. Average rents have risen by 20% year-on-year (YoY), while property prices have increased by 8.5%. In November 2024, residential transactions were up by 15.2%, further underscoring the sector's buoyancy.

The UAE's IPO market also remains robust. In the first half of 2024, USD 4.1 billion was raised in MENA through 28 IPOs, all of which were oversubscribed multiple times. In 2023, USD 10.7 billion was raised, with around 9 billion raised in 2024. This positive trend is set to continue, supported by a strong IPO pipeline and sustained market enthusiasm.

Dubai's stock market delivered a year-to-date return of 30.57% as of December 16, 2024, while Abu Dhabi registered a marginal decline of -1.12%. Abu Dhabi is trading at a prospective P/E multiple of 14.39x for 2025, while Dubai offers even greater value, trading at 10.38x for 2025. Dividend yields for select companies remain appealing, ranging between 5 and 6%. Despite the introduction of a 9% corporate tax in 2024, UAE companies have demonstrated strong earnings growth.

Kuwait

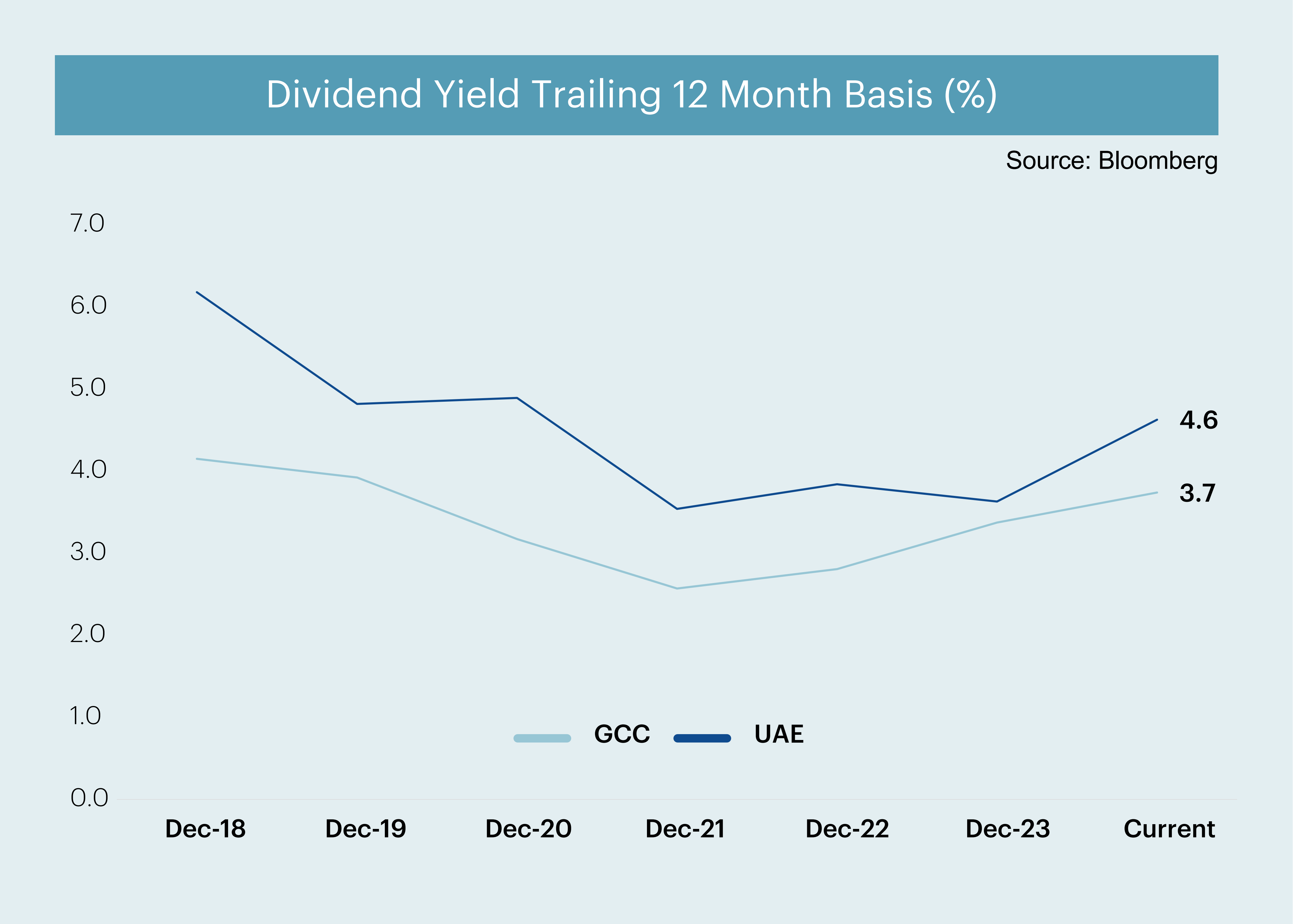
Demand for domestic credit picked in 2024, driven by increased business and household loans, resulting in a YTD increase of 2.9% basis as of October. Within business credit, construction and trade were the fasted growing sectors, with YTD growth rates of 17% and 18%, respectively. However, corporate credit growth is expected to gain further momentum, supported by the awarding of additional projects in Kuwait.

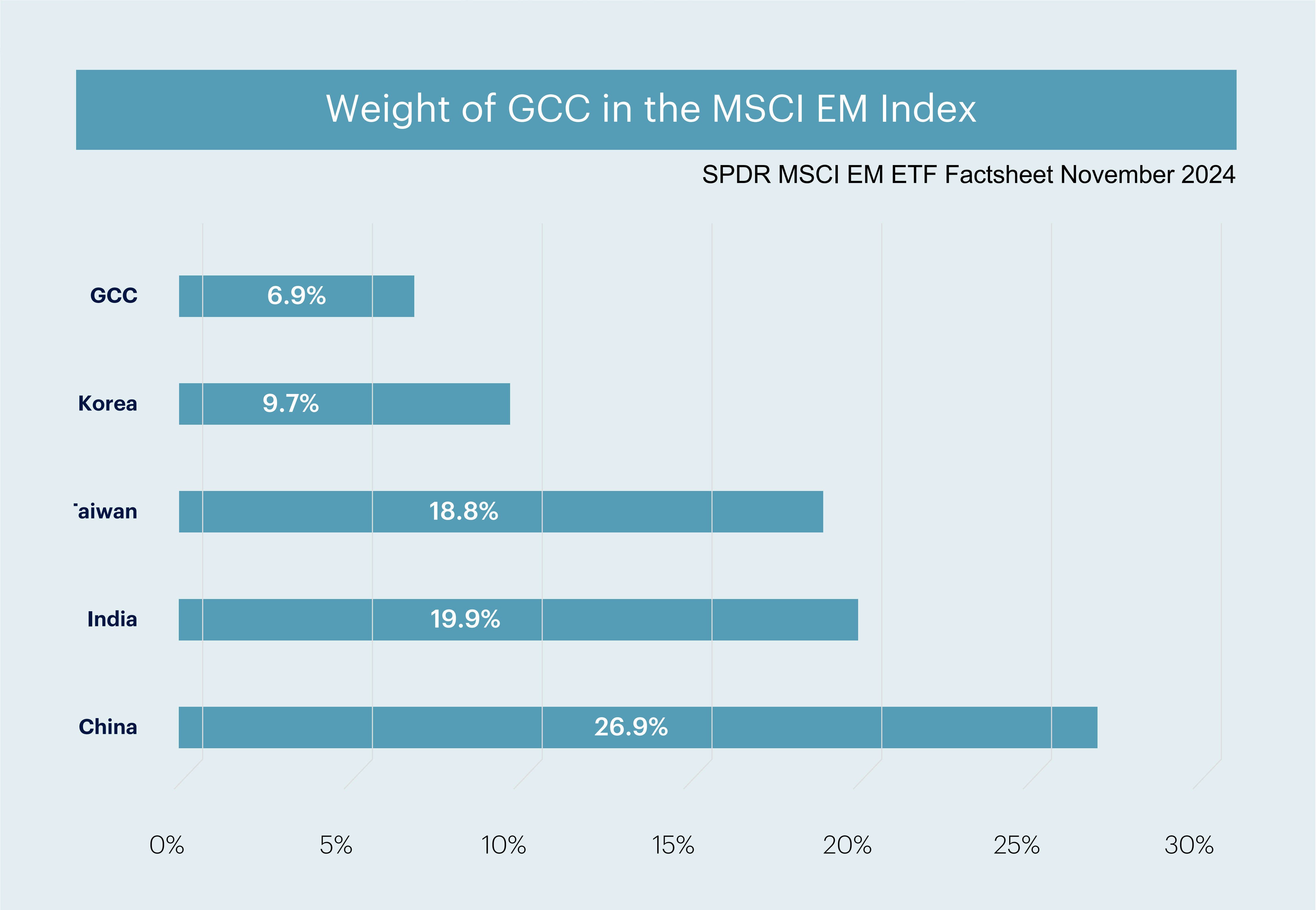
Kuwait's real GDP growth is expected to decline in 2024 due to oil production cuts under the OPEC+ agreement. However, growth is forecasted to rebound to an average of 2.4% between 2025 and 2027, as oil production restrictions normalise and key infrastructure projects reach completion. To stimulate non-oil growth and mitigate fiscal pressures, the government is prioritising public-private partnerships (PPP) and high-impact initiatives under its "New Kuwait Vision 2035" programme. Currently, mega projects worth USD 84 billion are either under execution or in the planning phase, with almost USD 3 billion awarded in 2024 alone.

Kuwait's budget deficit is expected to narrow down to 3.1% of GDP in FY 2024-25, down from 4.7% in FY 2023-24, equating to a deficit of USD 19.15 billion. This improvement is partially offset by oil production cuts and a decline in average oil prices, assumed at USD 70 per barrel for the fiscal year. Government spending is expected to increase as fiscal conditions improve, providing further support to private sector growth.

Planned fiscal reforms, including the implementation of VAT and a new debt law, are expected to further enhance fiscal balances. The government is also focused on reducing reliance on volatile oil revenues by encouraging private sector participation, including a shift toward private healthcare expenditure to ease the burden on public finances.

Kuwait is expected to pass a new mortgage law, enabling banks to directly offer mortgages to customers. Following the success of similar initiatives in Saudi Arabia, this reform is expected to stimulate credit demand and economic growth in the country. Kuwait equities are trading at 12.33x prospective earnings for 2025, based on an estimated earnings growth of 3.93%.





The Kuwait market delivered a YTD return of 7.75% in 2024, reflecting strong investor sentiment and favourable market conditions.

Qatar

Qatar's performance has shown signs of recovery, delivering a YTD return of 4.93% in 2024. However, it continues to lag behind the regional average, particularly following the FIFA World Cup in 2022, which drove exceptional economic growth that has since stabilised. Qatar's real GDP is expected to grow by 2.1% in 2024, reflecting a more measured pace of expansion as the economy adjusts post-World Cup.

Economic growth is expected to accelerate as the North Field LNG expansion project gains traction. Qatar's LNG production is expected to increase by 85% by 2030 in three phases. The first phase will see production rise from 77 million metric tons per annum (Mtpa) to 110 Mtpa in 2026, followed by an increase to 126 Mtpa by 2027 and reaching 142 Mtpa by 2030. As the world's largest LNG exporter, Qatar holds a 20-30% share of the global market.

Qatar has also set an ambitious target of attracting 6 million tourists by 2030, building on the success of 2023, when the country welcomed over 4 million visitors.

Qatar equities are currently trading at a prospective P/E ratio of 11.33x for 2025, based on Bloomberg consensus earnings growth 2.90% for that year.

Country Positioning

Our country preference continues to favour the UAE and Saudi, however we remain optimistic about emerging opportunities in Kuwait, Qatar and Bahrain. The GCC's market exposure in the MSCI EM Index currently stands at 6.9%, making it the fifth largest contributor among member countries. The weight is expected to rise further, supported by ongoing reforms, new listings and higher foreign ownership limits (FOL).

In UAE, Dubai represents a compelling investment opportunity with attractive valuations and a strong dividend play, particularly with newly added names offering generous payouts. Booming growth in the hospitality and real estate sectors further supports Dubai's appeal.

Abu Dhabi offers diversification potential with a mix of growth and sustainable dividend payouts. Despite underperformance in 2024, the current valuation appears undervalued. With healthy corporate earnings expected in 2025, we anticipate a rebound in Abu Dhabi's market performance.

Saudi Arabia continues to deliver a strong performance, benefitting from various government reforms that are driving sustainable economic growth.. The government's focus on value-added hydrocarbon products, clean energy initiatives and policies supporting the non-oil sector creates a positive outlook for the market. Additionally, the execution of mega projects has gained traction, driving corporate credit growth within the banking sector. Saudi Arabia's technology-driven initiatives, spanning digitisation, cloud computing, cybersecurity and space systems, continue to propel further growth.

In Kuwait, further allocation will be subject to earnings growth, valuations and the implementation of key reforms. While we remain selective in our approach, our overall positioning in the Kuwaiti market is under-weight.

Qatar's performance has shown signs of improvement recently. The economy stands to benefit from increased government spending in the oil and gas sector, however we remain highly selective.

Sector Positioning

Financial: Finance remains a key sector in the GCC, with our primary focus on banks that possess the scale or unrivalled advantage to drive future growth. We prefer banks that lead in adopting and integrating technology as the industry evolves. Our preference is for institutions with a balanced mix of interest and fee income, sustainable dividend payouts and a strong commitment to investing in future growth and technological innovation.

Real Estate: The region, particularly the UAE, has benefited from the recovery of the hospitality sector and the introduction of long-term visa programmes. The UAE real estate market has witnessed a strong recovery in rentals and increased demand for new units, supported by ample liquidity and improved sentiment. We favour companies with a high proportion of recurring income and exposure to the cyclical upturn in UAE real estate markets. In Kuwait, real estate offers potential upside if mortgage reforms are approved, while Saudi Arabia is expected to see more sustainable demand in the sector following a period of rapid growth driven by earlier mortgage reforms.

Consumer Discretionary and Retail: Companies that prioritise adapting to changing shopping habits and emphasise sustainability are poised for growth. E-commerce platforms and brands focused on ethical and sustainable practices will resonate with a growing base of conscious consumers, particularly those embracing digital sales strategies. Rising consumer spending power, combined with an increasing global youth workforce, has further bolstered the sector's prospects.

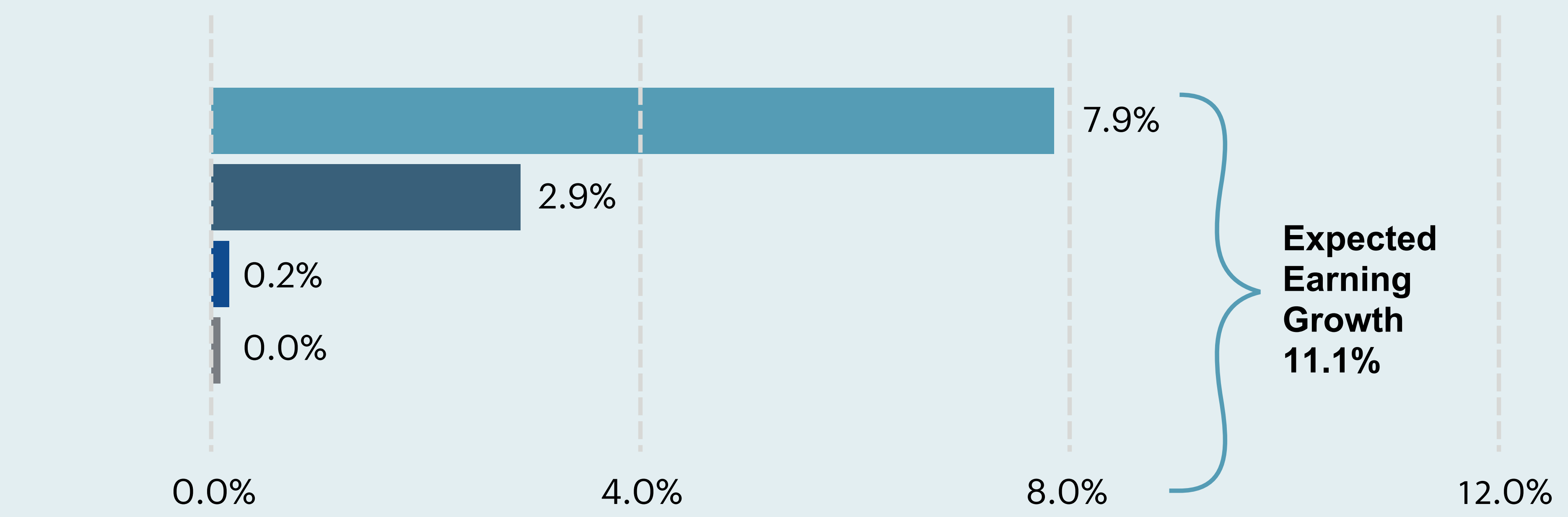
Technology: The technology sector in the GCC is emerging as a high-potential area, though some names are not yet part of major benchmarks. The sector is experiencing rapid earnings growth, fuelled by government initiatives in digitalization, IT services, data centres, cybersecurity and cloud computing. Globally, technology trades at much higher multiples due to strong growth prospects, and we see some similarities in newly-listed GCC technology names reflecting this trend.

Petrochemicals: Our underweight positioning in the petrochemical sector remains, as product pricing is showing early signs of stability, but demand recovery – particularly in China – remains subdued amid macroeconomic challenges. We expect more prominent signs of recovery to emerge in the second half of 2025.

Others: Our exposure to other sectors remains stock-specific, targeting companies with higher pricing power or those gaining market share through e-commerce or consolidation. We see particular potential Saudi insurance and healthcare sectors, driven by attractive earnings growth tied to ongoing reforms, increased tourism and the privatisation of medical insurance.

GCC Sector View	
Sectors	**2025-Overview**
Consumer Disc.	Over-weight
Industrials	Over-weight
Technology	Over-weight
Real Estate	Over-weight
Insurance	Over-weight
Healthcare	Neutral
Communication	Neutral
Utilities	Neutral
Consumer Staples	Under-weight
Energy	Under-weight
Financials	Under-weight
Materials	Under-weight

Portfolio's Expected Earnings Growth by Country, Excl. Re-Rating



	2025 E
Saudi	7.9%
UAE	2.9%
Kuwait	0.2%
Oman	0.0%

Expected Returns and Outlook for 2025

In 2025, we expect returns between 12% to 13% from the GCC market, supported by recovery across major sectors such as petrochemicals, alongside enhanced financial and geopolitical stability.

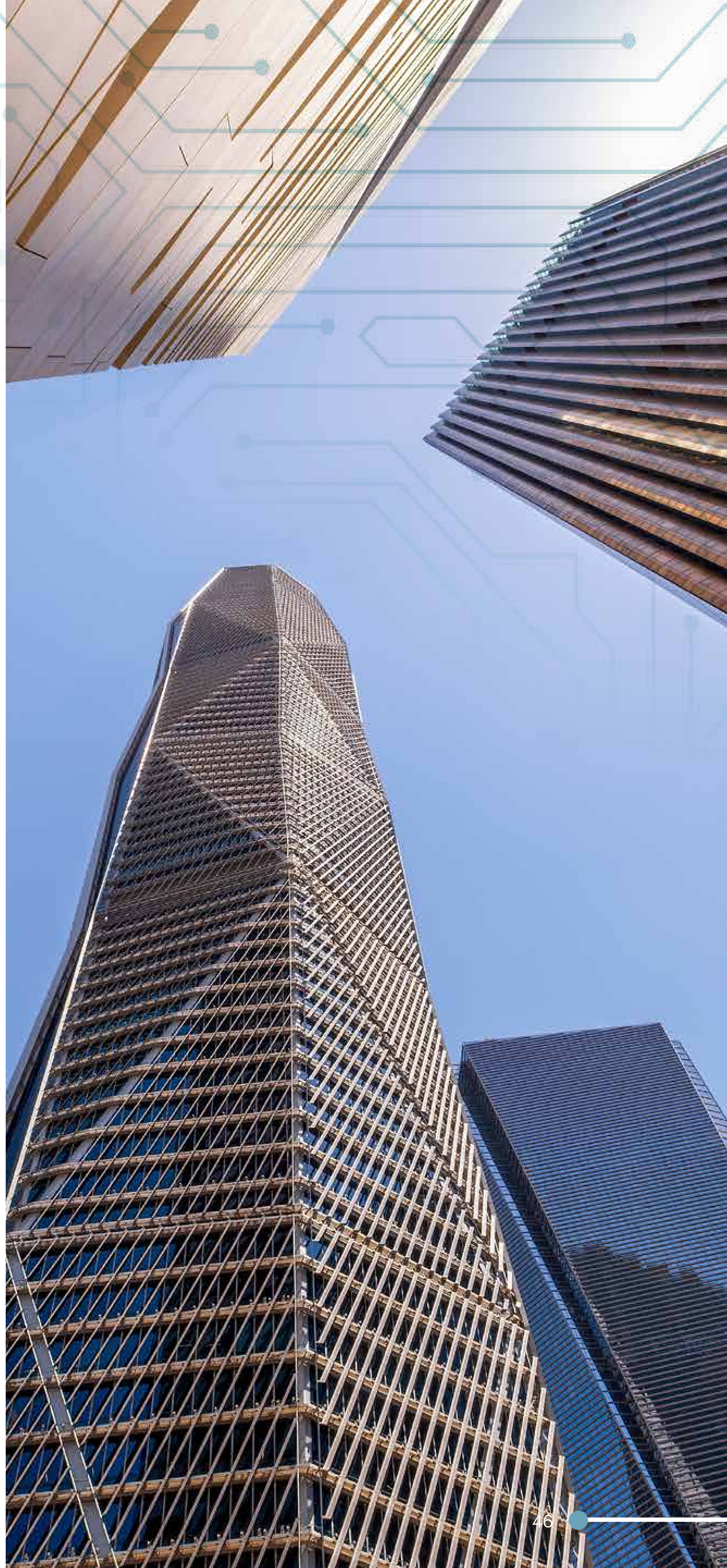
Based on our expected earnings growth of 11.1% in 2025, and assuming a P/E multiple of around 15.18x, in addition to a re-rating estimate of 1% to 2%, we expect double digit returns of around 12% - 13% in 2025E including dividend. Many stocks are offering higher dividends, which appear attractive as we approach the dividend season in the first quarter of 2025, especially in a declining interest rate environment.

Conclusion

We maintain a positive outlook on the GCC market, with our preferred allocation order being Dubai, followed by Abu Dhabi and Saudi Arabia. Other GCC markets warrant limited exposure, as the pace of ongoing reforms remain paramount.

Corporate earnings have remained robust throughout 2024 – a trend we anticipate will continue in 2025, further supporting market performance. Additionally, any positive resolution on the geopolitical front could provide an extra boost to the region's market trajectory.

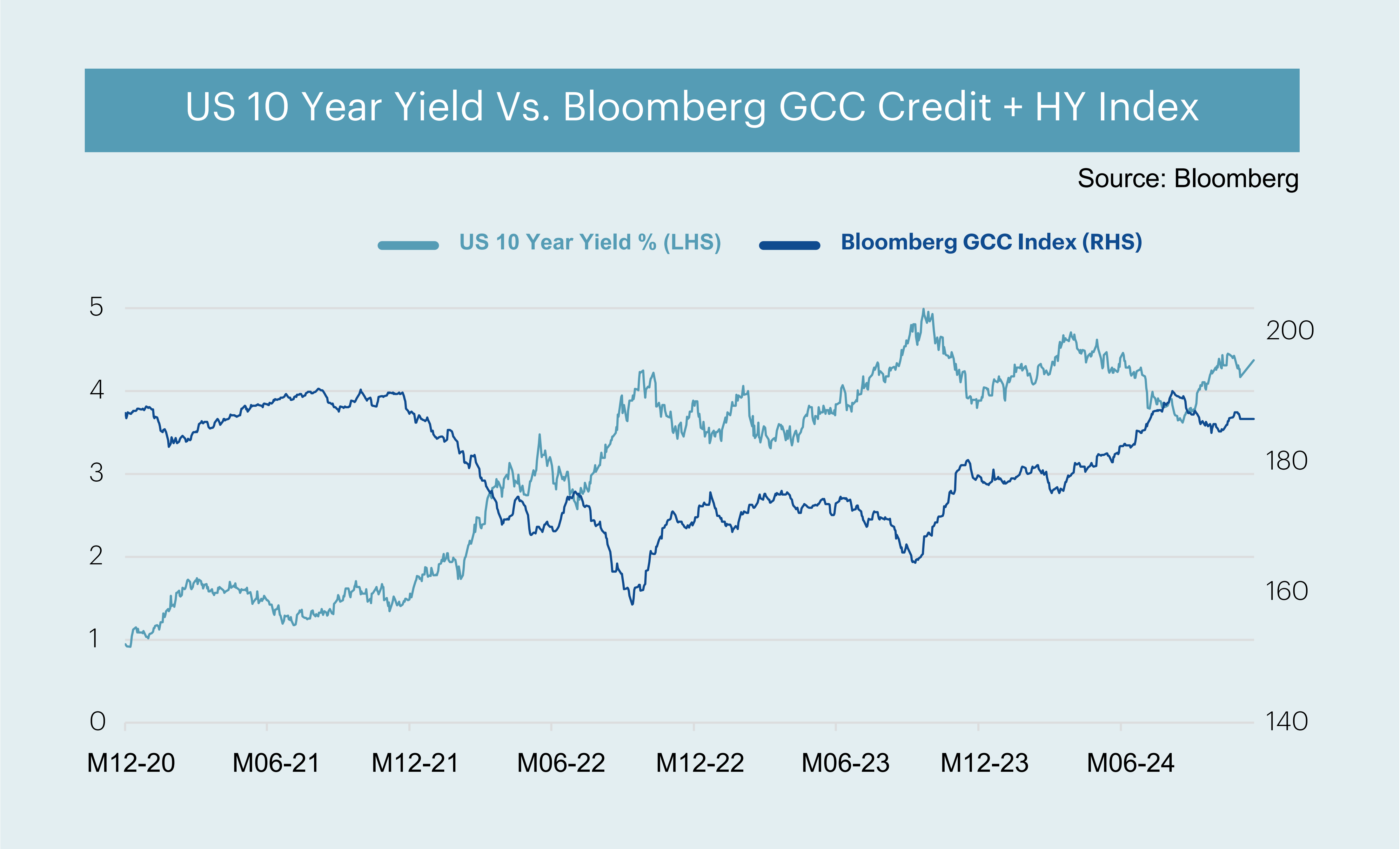
The GCC's strategic focus on economic diversification, infrastructure development and technological advancement positions the region as an emerging investment hub. By identifying key growth sectors, understanding market dynamics and navigating potential challenges, equity investors can unlock significant opportunities within the region. As the GCC continues to evolve, investors will not only need to embrace its complexities, but also recognise the vast potential for growth and long-term rewards.



MENA Fixed Income:
Navigating Resilience in a Volatile Landscape

Zehan Salleh – Executive Director, Fixed Income Management

The start of 2024 brought renewed confidence to fixed income investors, fueled by expectations of imminent central bank easing. However, this optimism proved somewhat premature, with the anticipated rate cuts only materialising in the later part of the year. Historically, rate cuts combined with disinflation and moderate economic growth have created a favourable environment for bonds, allowing investors to yield positive returns, even amid fluctuating market conditions.



The MENA credit markets, particularly in the high-yield universe, demonstrated remarkable resilience, driven by appealing valuations and strong economic growth. As we head into 2025, these market dynamics appear poised to continue. Geopolitical tensions captured headlines throughout 2024, and these issues will remain central to discussions in early 2025.

The evolving economic fundamentals will play a vital role as we transition from the challenging interest rate environment. As of now, the outlook remains steadfast, upholding predictions that 2024 would be a significant turnaround year for fixed income investments. For instance, the Bloomberg MENA USD Index reflects a remarkable year-to-date return of 5.5% at the point of writing, effectively compensating for losses in 2022.

A Promising Outlook for MENA Credit in 2025

Looking ahead, we project that the fundamentals of regional credit will continue to exhibit strength. The dynamics of higher yields, coupled with a steeper yield curve, are expected to attract renewed investment interest in credit. Fixed income, particularly within regional credits, has regained its appeal—not only due to attractive yields, but also the promising potential for capital appreciation. Investors are stepping into 2025 with a sense of cautious optimism.

Despite lingering market uncertainties, buy-and-hold investors—particularly those focused on yield—found 2024 to be a fruitful period for investment. After many years of deprived yields, 2024 witnessed a peak yield of approximately 6.37% for the Emerging Markets USD Aggregate: MENA Bond Index in April—an impressive contrast to the lows of just over 3% experienced less than four years ago and a prior peak of 7.28% in October 2023. Such a remarkable shift underscores the revitalisation of interest in MENA fixed income as an essential asset class.

The Influence of Global Macroeconomics on Regional Credit Markets

The shifting tides of the global macroeconomic landscape are pivotal in shaping the performance dynamics of regional credits. Towards the end of 2024, market conversations began to pivot from the persistent challenges of inflation to growing apprehension around slowing economic growth. Uncertainty regarding market outlooks for 2025 intensified in the fourth quarter, largely influenced by the policy agenda of the incoming US president. Proposed changes by President-elect Trump—ranging from stricter immigration controls and expansive fiscal initiatives to potential international trade tariffs—introduce significant risks. Such developments could undermine the progress made in managing core inflation and may prompt the US Federal Reserve to reassess its course of monetary easing sooner than previously expected.

Despite these challenges, our outlook for regional credits remains optimistic, underpinned by strong balance sheets and surplus revenues. The defensive characteristics of these credits have captured the interest of investors, particularly as GDP growth rates in the region consistently outstrip global averages. What stands out is not merely the extent of the surplus, but also the quality of GDP growth—fuelled by a robust performance in non-oil sectors—that sets Gulf Cooperation Council (GCC) economies apart from many others within the emerging market (EM) debt universe.

Moreover, the regional banking sector is characterised by prudent management and significant capitalisation, allowing issuers to adopt a balanced yet flexible approach towards debt issuance. This agility became evident throughout 2024 as new issuance activity rebounded, with Saudi Arabia alone accounting for half of the region's primary issuances. Notably, the GCC and Egypt together contributed to 20% of the total Emerging Markets bond issuance.

Moving forward, the interaction between global macroeconomic forces and regional economic resilience will play a crucial role in navigating the intricacies of credit markets. The stability showcased by regional credits not only underscores their resilience, but also reflects the strong economic fundamentals that bolster sustained growth and investor confidence. In an ever-evolving global environment, regional credits have emerged as a compelling investment opportunity, recognised for their financial stability and potential for continued growth.

Unveiling Opportunities in Regional Credits

Regional credits are evolving into a distinct area of opportunity, characterised by an in-depth maturing credit curve that sets the stage for favourable investment conditions. Corporate fundamentals in this segment are expected to remain strong, highlighted by significant credit rating upgrades throughout 2024. A notable example is the Sultanate of Oman, which received an Investment Grade by S&P in September 2024, buoyed by improvements in both its fiscal and current account balances. The Sultanate's successful efforts at deleveraging are expected to encourage further actions from other credit rating agencies, possibly resulting in an upgrade of its sovereign rating to BBB- in the near future.

Meanwhile, Egypt has stepped forward as a standout performer, driven by substantial direct investments from Abu Dhabi and other regional partners into its challenged economy. This inflow of capital has provided much-needed relief amid a protracted two-year crisis surrounding foreign exchange and fiscal balance. Fitch upgraded Egypt's credit rating to B in 2024, while S&P maintains a B- rating, accompanied by a positive outlook. Although Moody's assessment currently places Egypt at Caa1, it too has a positive outlook, and an upgrade to B- is highly anticipated.

Overall, concerns regarding potential downgrades within this subset of the emerging markets universe appear manageable, further enhancing the appeal of regional credits. As such, these assets are poised to continue attracting investors who are seeking stability and growth in an increasingly complex global economic landscape.

Strategic Positioning for the Upcoming Year

Moving into 2025, we have repositioned our duration exposure from an underweight to a neutral position. This adjustment aligns with recent market developments, particularly the notable rise in the 10-year US Treasury yield, which surpassed the 4% mark in the last quarter of 2024. This yield spike represents a timely opportunity for us to increase our investment-grade duration, with a particular emphasis on the 30-year curve to narrow the duration gap relative to benchmark.

Regarding credit allocation, we remain firmly committed to selective opportunities, particularly within the high-yield sector—a stance we advocated in our previous publication. Our investment focus includes, but is not limited to, BBB and BB-rated quasi-sovereigns, regional financial subordinated debt instruments, and a select number of high-yield real estate issuers.

As economic indicators continue to point towards the very low likelihood of a significant slowdown in the United States—albeit acknowledging the associated risks—our approach emphasises the importance of enhanced credit awareness. With credit spreads tightening and nearing historical lows, exercising prudent credit judgment is essential, even as we remain optimistic about the returns expected from this asset class. The robust prospects of regional credits, coupled with strategic positioning, enable us to navigate the complexities of the market effectively as we advance into the new year.

Preparedness for Market Volatility

As we look to the upcoming quarters, we recognise the potential for heightened market volatility driven by global geopolitical events and the uncertainties surrounding economic policies. Acknowledging these challenges, we have strategically positioned ourselves to navigate fluctuations in the market while remaining open to the opportunities that volatility can present through prudent duration positioning and careful sector selection.

At the core of our strategy is the conviction that diversification and maintaining portfolio liquidity are crucial for mitigating risks associated with a volatile market environment. These principles form the foundation of our approach to regional credits, reinforcing our commitment to an actively invested posture within this asset class.

Conclusion

Looking ahead, the resilience and prospective growth of regional credits make them an attractive choice within the broader fixed-income landscape. Our focused strategy on duration, selective credit allocation, and proactive risk awareness positions us to harness both stability and growth opportunities in an ever-evolving investment environment.

By adopting a thoughtful and diversified approach, we are well-equipped to navigate market complexities with confidence and clarity, taking advantage of the potential that lies ahead.

The Middle East's Energy Transition – An Investment Case

A regional transition that is accelerating at pace

Shargiil Bashir – EVP & Chief Sustainability Officer

An overview of the current energy transition global landscape

Renewable energy was the target of a landmark commitment by nearly 200 countries that vowed to triple capacity at COP28 in the UAE. While the sector is showing encouraging progress, backed by expectations that global renewable capacity will increase 2.7-fold by 2030, it falls short of the ambitious tripling target pledged in Dubai last year.

Climate and energy security policies in nearly 140 countries have made renewables cost-competitive with fossil-fired power plants. This shift is driving new demand from the private sector and households, while industrial policies promoting local manufacturing of solar panels and wind turbines are fostering domestic markets.

However, more is needed to achieve the goal of tripling renewable energy capacity worldwide set at COP28. The steady pace of global progress on renewables expansion offers an opportunity for countries to raise their targets in the next round of Nationally Determined Contributions (NDCs), set to be submitted in 2025.

Projections show that, among renewable energy assets, new solar capacity added globally between now and 2030 will account for 80% of the growth in renewable power worldwide by the end of the decade. Despite recent challenges related to supply chains and macroeconomic conditions, the wind sector is expected to recover. In contrast, hydrogen plays a minor role in driving new renewable capacity growth.

According to the International Energy Agency (IEA), renewable electricity usage in the transport, industrial, and construction sectors will account for more than three-quarters of the projected global renewable energy demand. This growth is expected to raise the share of renewables in final energy consumption from 13% in 2023 to nearly 20% by 2030.

However, fossil fuels will still meet almost 80% of global energy demand. Outside of electricity, renewable fuels — including liquid, gaseous, and solid bioenergy, hydrogen, and e-fuels — will account for 15% of the IEA's forecasted growth. Other renewable energy sources, such as ambient heat, solar thermal, and geothermal, will account for the remaining share.

China is poised to cement its position as the global leader in renewables, as it is projected to account for nearly 60% of the worldwide expansion in capacity to 2030. The European Union and the US are expected to double their rate of renewable capacity growth between 2024 and 2030, while India is expected to achieve the fastest growth rate among major economies.

The global transition from fossil fuel-dependent economies to more sustainable energy sources is marked by steady and irreversible progress. Significant changes are reshaping the global energy landscape, setting the stage for a markedly different system by the end of the decade. The growing adoption of clean energy technologies, coupled with structural economic shifts worldwide, has significant implications for fossil fuels, with global demand for coal, oil, and natural gas expected to peak within this decade.

However, even stronger measures are still needed to keep the goal of limiting global warming to 1.5°C alive. Global reliance on fossil fuels must be reduced at a faster pace, backed by national government policies, supranational coordination, and private investment. These key players in the economic ecosystem, including the private sector, must support clean energy transitions rather than hinder them. There are immense benefits to clean energy transitions, including new industrial opportunities, job creation, greater energy security, cleaner air, universal energy access, and a safer climate for everyone.

Specificities of the energy transition in the Middle East and North Africa (MENA)

MENA has experienced a rising demand for renewable power, with hydrogen driving solar photovoltaic (PV) and onshore wind capacity expansion. Still, the future of concentrated solar power (CSP) is being determined. Renewable capacity in the region is forecasted to triple from 53 gigawatt (GW) in 2023 to almost 150 GW by 2030, with solar PV leading the expansion, accounting for over 85%, given the MENA's economically attractive projects.

Due to good solar resources, economies of scale, and beneficial land and financing costs, the region produces winning bids at the lower end of the world's awarded bid range. Solar PV capacity in the MENA region is expected to grow 84 GW by 2030, with more than half coming from Saudi Arabia and the UAE.

Overall, installed solar PV capacity in the region is expected to increase more than fourfold between 2024 and 2030, expanding its share in the power mix from 2% to over 8%. CSP growth is expected to slow over the next six years compared with the previous six-year period. After expanding 1.4 GW between 2017 and 2023, less than 300 megawatt (MW) is expected by 2030 due to the lack of a pipeline of projects in late-stage development. A 600-MW project was completed in the UAE in 2023, and no further CSP projects are under construction in the region.

The main reason for limited CSP growth is uncertainty over whether the government plans to implement the technology. The uncertainty is explained by CSP's high capital costs upfront and its label as a niche technology that requires a complex infrastructure. CSP also faces fierce competition from PV technologies, which have become more cost-effective while proving equally competent for deployment in regions with high solar irradiance. Governments rely on subsidies to promote CSP, and policy continuity is not yet set in stone, which hampers long-term investing decisions.

Regarding other renewable sources of power, hydrogen production is emerging as a driver for new onshore wind capacity in the region, accounting for 40% — or 4 GW — of wind expansion by 2030, led by Saudi Arabia, Oman, and Egypt. Overall, onshore wind capacity will reach nearly 10 GW, 8% higher than in 2023, due to increased auction activity in new markets.

Saudi Arabia dominates the region's growth, accounting for over 40% of renewable capacity expansion between 2024 and 2030. The UAE, Israel, Oman, Egypt, Iraq, and Morocco represent another 44%. The two main procurement methods in the region are competitive auctions and unsolicited bilateral contracts with utilities. In addition to climate goals, the region has two main drivers of renewable energy growth: 1) the fast-rising domestic electricity demand spurred by population and 2) economic growth.

Exports of electricity or low-carbon products are the second growth driver for renewable capacity in the MENA region. Morocco and Saudi Arabia are investigating the development of new interconnections to export renewable electricity. For low-carbon products, industries are announcing plans to decarbonise their manufacturing by generating their own renewable electricity or procuring the necessary power through power purchase agreements (PPAs). Rising European demand for low-emissions products is also spurring additional renewable capacity deployment. Morocco's state-owned mining company, OCP, whose exports are responsible for 6% of the country's GDP, has therefore announced plans to install 200 MW of PV to switch from gas to solar energy. Aluminium companies in Egypt and the UAE have also released plans to install or purchase renewable electricity, citing expectations of future global demand. In addition to electricity consumption, hydrogen and hydrogen-based fuels, which are used as feedstocks, are key drivers of renewable capacity growth in the MENA region. In fact, renewable energy capacity for hydrogen production is expected to account for 10% of the region's growth by 2030. Two of the world's first global offtake contracts for ammonia have been announced in Egypt and Saudi Arabia. At the same time, developers have been awarded plots of low-cost land in Oman to build projects to produce hydrogen for local industries and ammonia for export.

In 2024, peak energy demand reached record levels in Kuwait, Egypt, Algeria, Oman, and Iraq as soaring temperatures increased air conditioning usage. This increased the planned power cuts in Egypt and led to Kuwait's first planned power outages. Electricity consumption in Saudi Arabia also reached an all-time high in 2023 amid population and economic growth.

In response to rising electricity demand, many countries are accelerating renewable capacity deployment to reduce electricity imports or free up domestic fossil fuels for more significant exports. In 2024, Qatar announced its first renewable energy strategy, Kuwait reopened a cancelled tender for 1 GW of solar PV, and Algeria awarded winners for its 3-GW solar engineering, procurement, and construction (EPC) project.

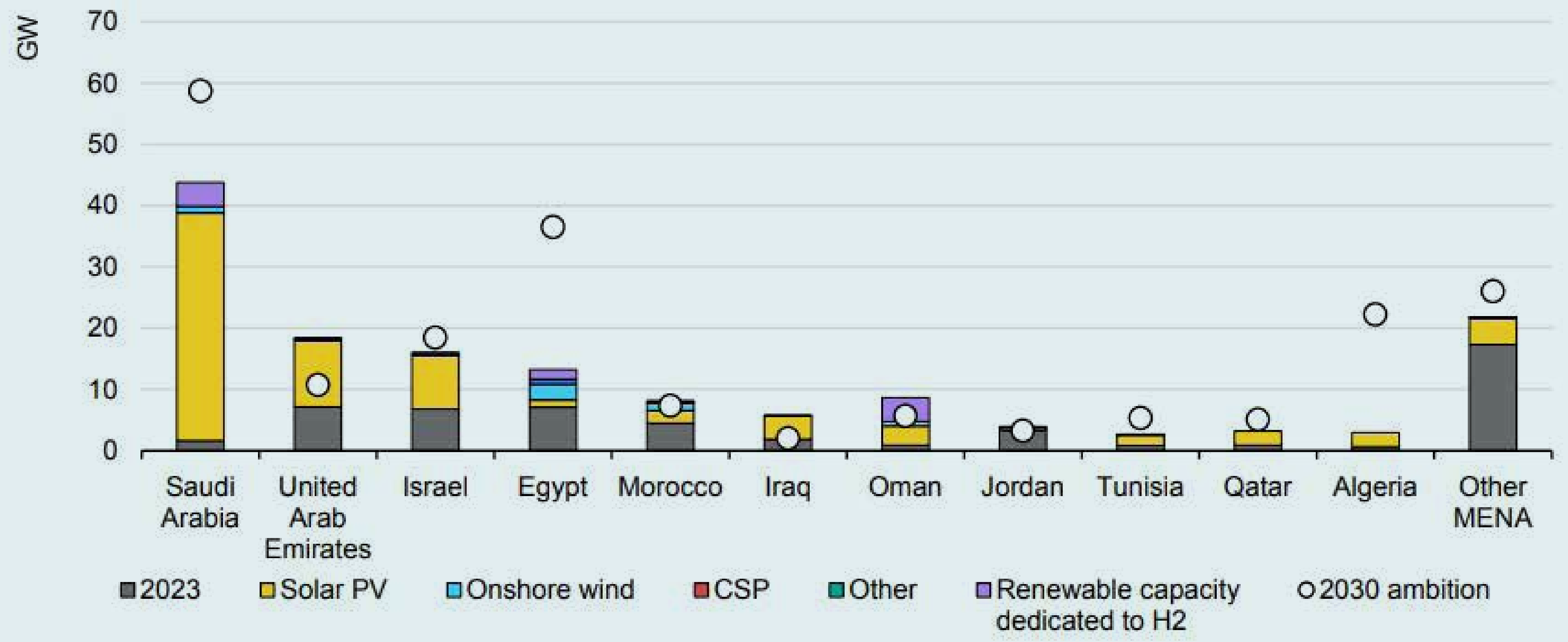
MENA countries aim to reach 201 GW of renewable capacity in total by 2030. While the main-case forecast is 26% below this target, some countries are expected to meet their targets. Saudi Arabia, Egypt, and Algeria account for nearly 60% of the region's goal. Although the outlook is more optimistic than last year in these markets, the IEA's forecast indicates that installed capacity still falls short of their 2030 targets. However, the UAE, Oman, and Morocco are poised to exceed their targets for 2030. Meanwhile, Iraq and Jordan can potentially raise their targets, as their capacity goals for 2030 only reflect current installations.

Growth in the region could be 60% or 152 GW higher than in the main case, nearing the realisation of the 2030 ambition. To be successful and overcome their three biggest challenges, MENA countries should deliver a faster auction implementation, improve the regulatory and policy environment for distributed solar PV, and allow greater industrial electrification.

The Middle East's very own transition challenges and opportunities

In a successful energy transition scenario, the Middle East find its greatest challenge in the fact that five of the world's top oil producers — Saudi Arabia, Iraq, the UAE, Iran, and Kuwait — and three of the world's top 10 natural gas producers — Iran, Qatar, and the UAE — lie within its regional borders. The region also faces demographic hurdles, as its population is expected to expand 36% by 2050, paired with a corresponding increase in demand for food production, water, and residential electricity.

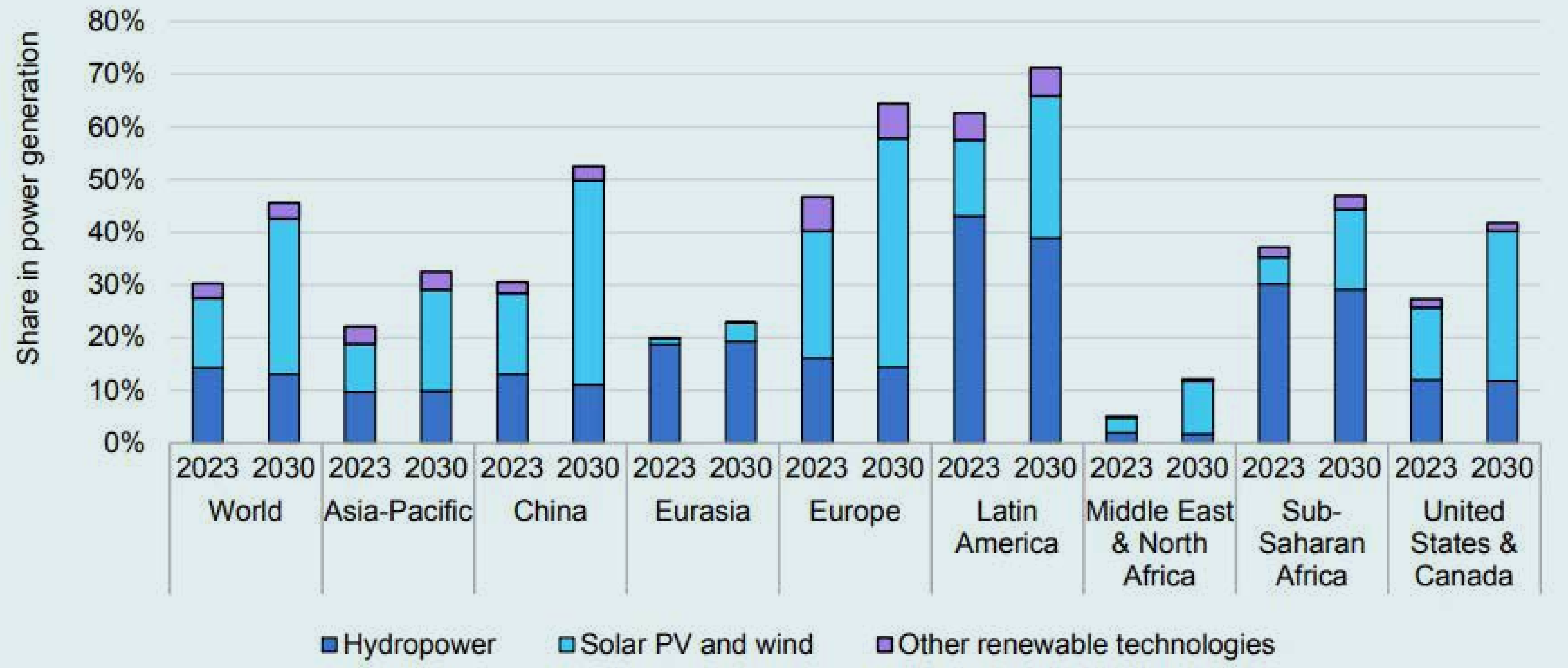
Middle East and North Africa installed capacity forecast in 2030 by country and technology vs current renewable capacity ambitions



*Statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Notes: CSP = concentrated solar power; "Other" refers to bioenergy; H_2 = hydrogen.

Renewable energy shares in power generation by technology and region, 2023 and 2030



IEA. CC BY 4.0.

Notes: "Other renewable technologies" includes bioenergy, concentrated solar power, and geothermal and ocean energy. 2024-2030 values are based on the main-case capacity forecast. Electricity generation from wind and solar PV indicates potential generation under current curtailment rates, but does not project future curtailment, which may change notably in some countries by 2030. The curtailment section below (Increasing VRE Penetration Leads to Rising Curtailment) discusses curtailment trends for several countries.

On a positive note, the Middle East already witnessed five countries announcing net-zero emission targets. The UAE and Oman have committed to achieving net-zero emissions by 2050, while Saudi Arabia, Bahrain, and Kuwait have set a goal for 2060. Additionally, the UAE published its third NDC, a climate action plan to cut emissions and adapt to climate impacts, in November with a commitment to reduce emissions by 47% by 2035 from 2019 levels. It also pledged USD 30 billion to launch a climate-focused investment initiative at COP28.

The transition to a greener future in the region is a viable solution for its challenges as long as it is underpinned by strategic dealmaking in key areas, such as renewable energy projects, green hydrogen production, associated infrastructure development, carbon capture, utilisation, and localisation of industry, for the long-term benefit of the region. Besides the positive implications for the region's decarbonisation, PwC estimates that the much-needed extensive investment in clean energy generation projects could boost the Middle Eastern economy to USD 13 trillion by 2050.

There are significant opportunities in green fuels such as hydrogen, as large investments from the public and private sectors are required to meet export demand for clean hydrogen in 2050 and the growing capacity of green steel manufacturing. The Middle East has over USD 2 trillion of planned infrastructure projects, which will generate opportunities in sustainable destinations, influence global supply chains, and develop a circular economy.

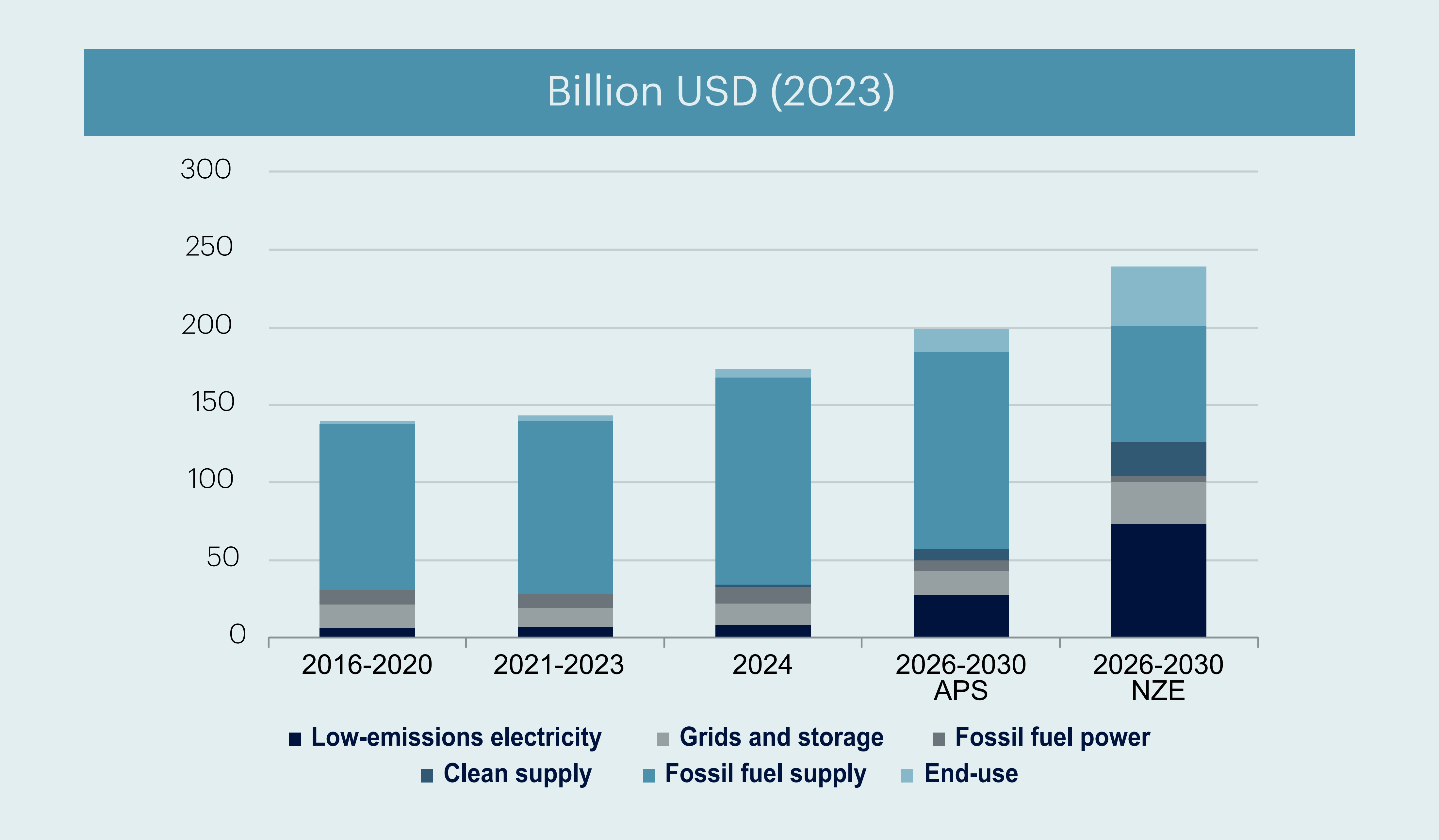
The region's power sector holds a distinct opportunity for increasing investment in clean energy technologies, most notably for solar PV. Harnessing these resources could substantially decrease exposure to both oil and gas in the power sector. For example, Saudi Arabia is targeting 130 GW of renewable capacity by 2030, up from less than 5 GW today. Encouraging signs are coming from projects such as the large Al Shuaibah Solar Plant in Saudi Arabia and the Mohammed bin Rashid Al Maktoum Solar Park in the UAE. Various countries in the region have also announced blue and green hydrogen investments and greater investments in critical minerals. Saudi Arabia, for instance, has established a USD 182 million mineral exploration incentive programme. Similarly, the UAE is intensifying its efforts to establish a presence in the sector, including establishing a mining partnership in the Democratic Republic of the Congo worth USD 1.9 billion and the signing of new agreements in the copper-rich Zambia.

The Middle East can pivot from being primarily an oil exporter to a leading centre for green energy, thereby maintaining its global energy significance in a low-carbon future. However, the success of this transformation depends on governmental support, regional cooperation, strategic partnerships between public and private sectors, and investment.

The investable side of an energy transition and its gaps

Encouraging signs become clearer as global energy investment is set to exceed USD 3 trillion for the first time in 2024, with USD 2 trillion earmarked for clean energy technologies and infrastructure. In 2023, global investments already surpassed USD 2 trillion in energy transition-related technologies, setting a record high at the time. It is undeniable that the sustainable energy transition is ramping up, and investment in clean power has accelerated since 2020. Renewable energy investments across the whole value chain drive positive trends in many sectors:

- Investments in nuclear power are expected to increase in 2024, with its share of 9% in clean power investments rising after two consecutive years of decline. Total investment in nuclear is projected to reach USD 80 billion in 2024, nearly double the 2018 level, which marked the lowest point in a decade.
- Grids have become a bottleneck for energy transitions, but investment is rising. After stagnating around USD 300 billion per year since 2015, spending is expected to hit USD 400 billion in 2024, driven by new policies and funding in Europe, the US, China, and parts of Latin America. Advanced economies and China account for 80% of global grid spending. Investment in Latin America has almost doubled since 2021, and in Colombia, Chile, and Brazil spending doubled in 2023 alone. However, investment remains worryingly low elsewhere.



- Investments in battery storage are ramping up and are set to exceed USD 50 billion in 2024, but spending is highly concentrated. In 2023, for every dollar invested in battery storage in advanced economies and China, only one cent was invested in other emerging economies.
- Investment in energy efficiency and electrification in buildings and industry has been relatively resilient despite the economic headwinds. However, most of the dynamism in the end-use sectors comes from transport, where investment is set to reach new highs in 2024 with 8% year-on-year growth expected, driven by strong electric vehicle sales.
- Investments in hydrogen electrolysers have risen to around USD 3 billion per year. However, they remain constrained due to uncertain demand and the lack of reliable off-takers.
- Investments in sustainable aviation fuels have reached USD 1 billion, while USD 800 million is going to direct air capture projects, representing a 140% increase from 2023.
- Some 20 commercial-scale carbon capture utilisation and storage (CCUS) projects in seven countries reached final investment decision in 2023. According to company announcements, another 110 capture facilities, transport, and storage projects could do the same in 2024.

However, the current investment gap is considerable and requires swift solutions. In the scenario of 1.5°C global warming, cumulative investment across the entire global energy system would need to reach USD 47 trillion by 2030 —USD 6.7 trillion per year on average — according to the International Renewable Energy Agency (IRENA). Annual investment would need to scale massively to remain on the 1.5°C pathway relative to the USD 3 trillion invested in 2024. Achieving the global target set at COP28 to triple renewable power capacity by 2030 would require an additional 7.3 terawatts (TW).

Although global spending on renewable power, grids and storage is now higher than total spending on oil, gas, and coal, it is still off track to limit global warming to 1.5°C by 2050. Upstream oil and gas investment is expected to increase by 7% in 2024 to reach USD 570 billion after an increase of 9% in 2023. This is being led by Middle Eastern and Asian national oil companies (NOCs), which have increased their investments in oil and gas by over 50% since 2017 and account for almost the entire rise in spending in 2023 and 2024. Investment in low-emissions fuels is only 1.4% of the amount spent on fossil fuels, compared to about 0.5% a decade ago.

Challenges remain as low borrowing costs end and higher financing costs hold back certain kinds of investment. However, the impact on project economics has been partially offset by easing supply chain pressures and falling prices. Solar panel costs have decreased by 30% over the last two years, and prices for minerals and metals crucial for energy transitions have also dropped sharply, especially the metals needed for batteries. The IEA projects that power sector investment in PV technology will exceed USD 500 billion in 2024, surpassing all other generation sources combined. Though growth may moderate slightly in 2024 due to falling PV module prices, solar remains central to the power sector's transformation. In 2023, each dollar invested in wind and solar PV yielded 2.5 times more energy output than a dollar spent on the same technologies a decade prior, according to the IEA.

While in 2015, the ratio of clean power to unabated fossil fuel power investments was roughly two to one. In 2024, it is set to reach 10 to one. The rise in solar and wind deployment has driven wholesale prices down in some countries, occasionally below zero, particularly during peak periods of wind and solar generation. In these countries, prices occasionally drop below zero due to the low marginal costs of renewable energy, the market design, and negative pricing. However, it can also be led by inflexible generation, grid constraints, subsidies, policy incentives or a mismatch between supply and demand. This lowers the potential for spot market earnings for producers and highlights the need for complementary investments in flexibility and storage capacity.

Increased public investment is required in an energy transition that is mainly funded by private entities. According to the IEA, private and commercial sources made about three-quarters of the investments, public finance contributed around 25%, and national and international development finance institutions (DFIs) accounted for just 1%. Other financing options for energy transition have faced challenges and focus on advanced economies. In 2023, sustainable debt issuances exceeded USD 1 trillion for the third consecutive year. However, they were still 25% below their 2021 peak as rising coupon rates dampened issuers' borrowing appetite. Market sentiment for sustainable finance is wavering, with flows to environmental, social, and governance (ESG) funds decreasing in 2023 because of potentially higher returns elsewhere and credibility concerns. Transition finance is gaining traction as a means to mobilise capital for high-emitting sectors. Still, greater harmonisation and credible standards are required for these instruments to reach scale.

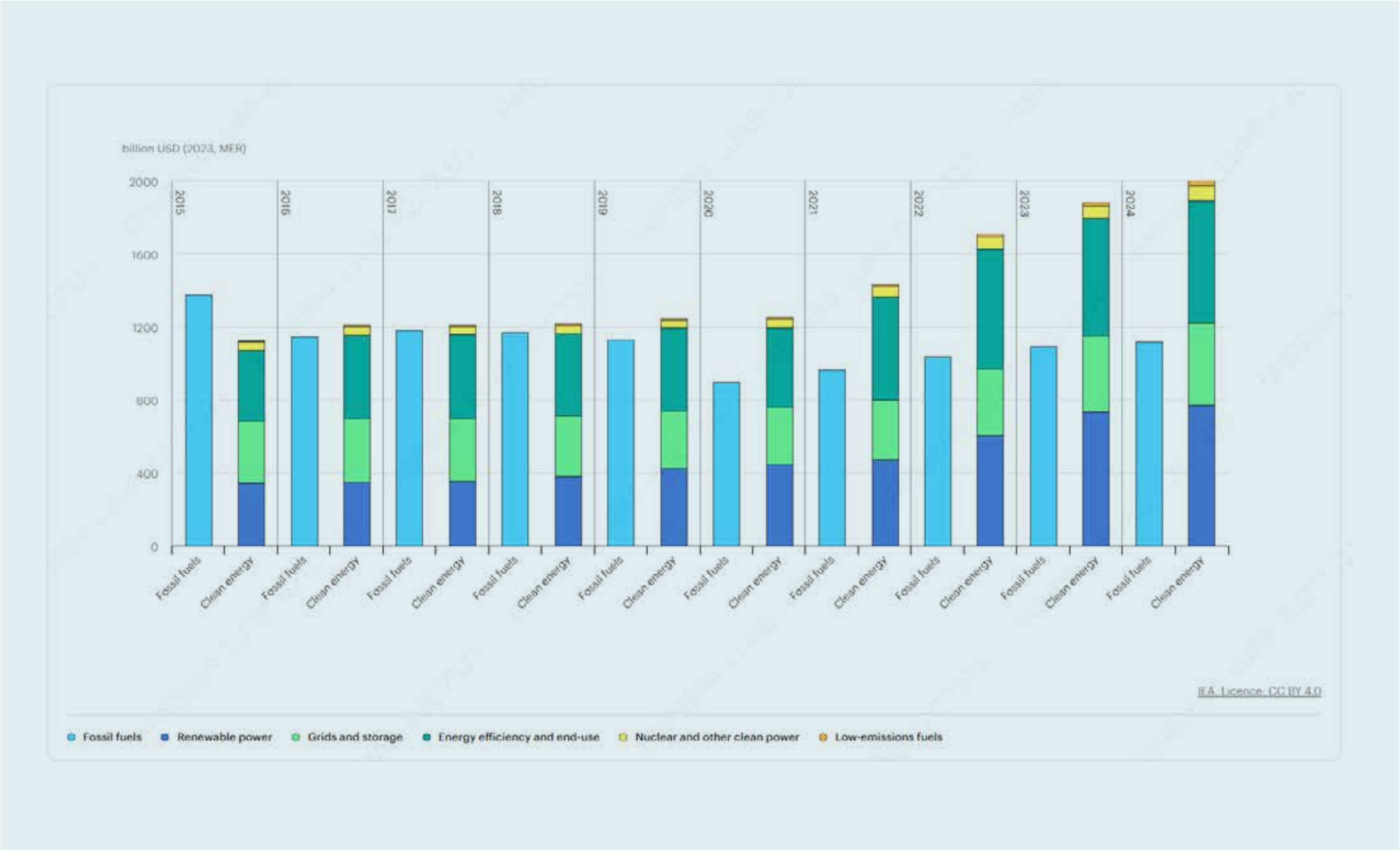
Energy investment in the Middle East is expected to reach approximately USD 175 billion in 2024, with clean energy accounting for around 15% of the total investment. In the Announced Pledges Scenario (APS), by 2030, clean energy investment will more than triple compared with 2024. For the moment, spending on fossil fuel supply predominates. According to the IEA, for every USD 1 invested in fossil fuels, only 20 cents are allocated to clean energy investment, representing approximately one-tenth of the average global ratio of clean energy to fossil fuel investment. By the end of the decade, every USD 1 invested in fossil fuels in this scenario will be matched by 70 cents going to clean energy. This gap reflects significant progress but remains below the parity needed for an efficient energy transition.

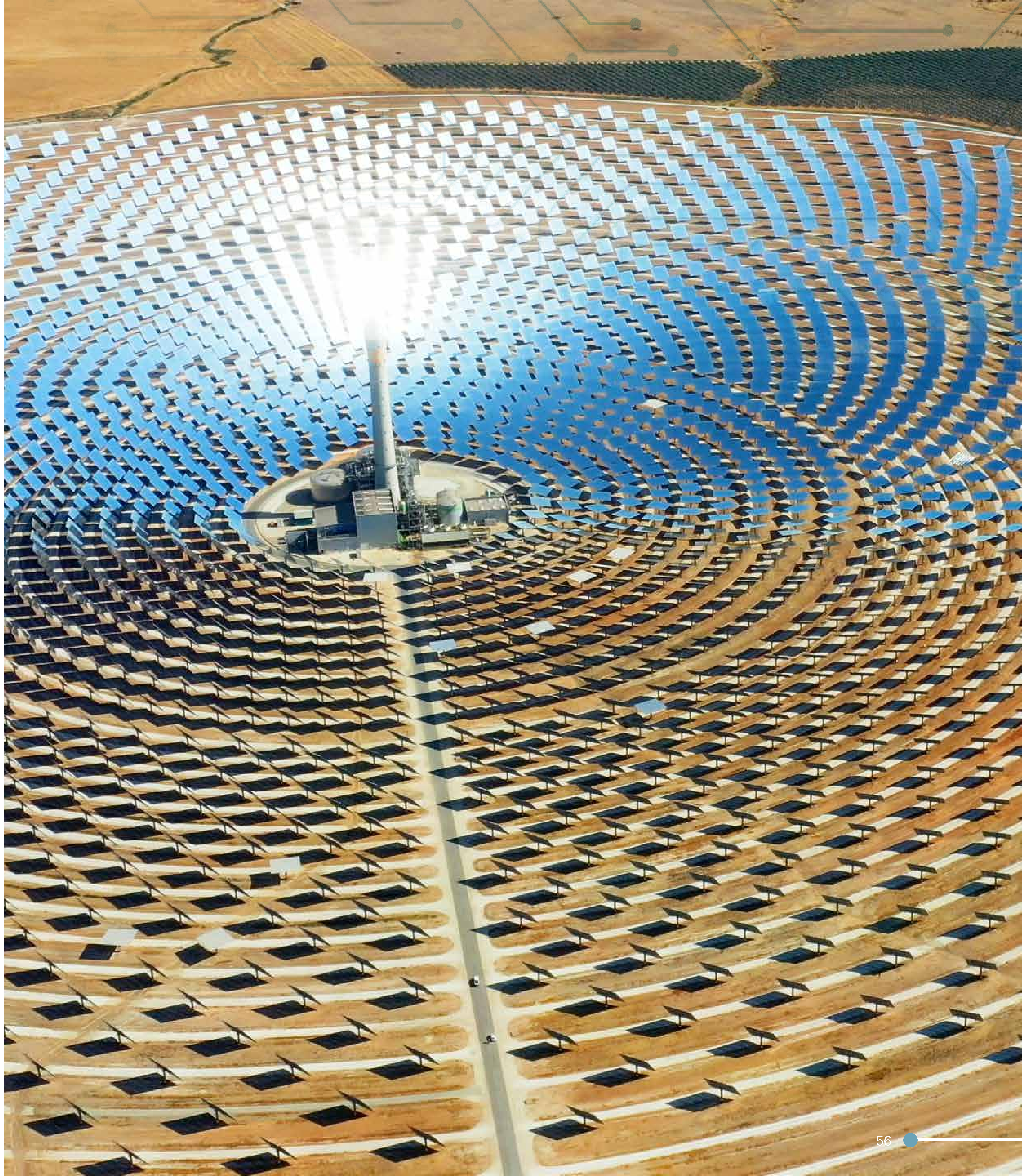
The regional opportunities in the decarbonisation of energy are compelling, and concerned investors are looking at the following prospects:

- Pure-play clean tech firms directly involved in renewable energy technology or production.
- Electric utilities transitioning away from fossil fuels and toward cleaner power generation.
- Oil and gas companies investing in cleaner production through carbon capture or diversifying production through renewables.

To ramp up investments in the region, collaborative approaches will be key to the success of energy transition projects as they allow businesses to share risks, resources, and expertise. Partnerships across various industries and between public and private sectors reduce risks through reduced financial exposure and by combining different advantages, infrastructure, influence, relationships, and expertise. A recent survey by KPMG found that 94% of energy transition investors prioritise finding partners who can share risks. Policy and regulatory risks also worry investors, as these represent a top barrier to investing in energy transition assets. These risks are complex for investors, and the resulting uncertainty can delay or prevent capital flows from reaching energy transition initiatives. Stable, transparent, and consistent regulatory environments can enhance long-term investment opportunities in clean energy and infrastructure.

The energy transition is one of history's biggest, longest, and most important investment trends. Global commitments to 2030 targets suggest that investors can look forward to many near-term opportunities. It is estimated that investment in renewable power generation, grids, and storage will need to rise from USD 1.2 trillion in 2024 to USD 2.4 trillion in 2030, while spending on efficiency and electrification needs to increase from USD 669 billion in 2024 to USD 1.9 trillion in 2030. Many financial investors are actively orchestrating the development of assets and infrastructure to create new energy value chains. The transition's actors, challenges, policies, and economics are expected to continue to evolve. Still, at a macro level, there is strong, consistent momentum behind the technologies, policies, and supply chains driving the transition.





Global Market Outlook

Global Equity Market Outlook

Market Returns to Normalise in 2025 as We Navigate the Uncertainties

Musa Haddad – Head of Fund Management & Acting Head of Asset Management
Ramesh Tiwary – Executive Director, Equities Management, Asset Management

As we gaze into the crystal ball of 2025, the global equity market presents a tapestry of opportunities and challenges. The global finance landscape is continuously evolving, influenced by technological advancements, geopolitical shifts, demographic changes, and economic policies. This article provides a comprehensive overview of the anticipated conditions for the global equity market in 2025, underpinned by current trends, forecasts, and potential risks.

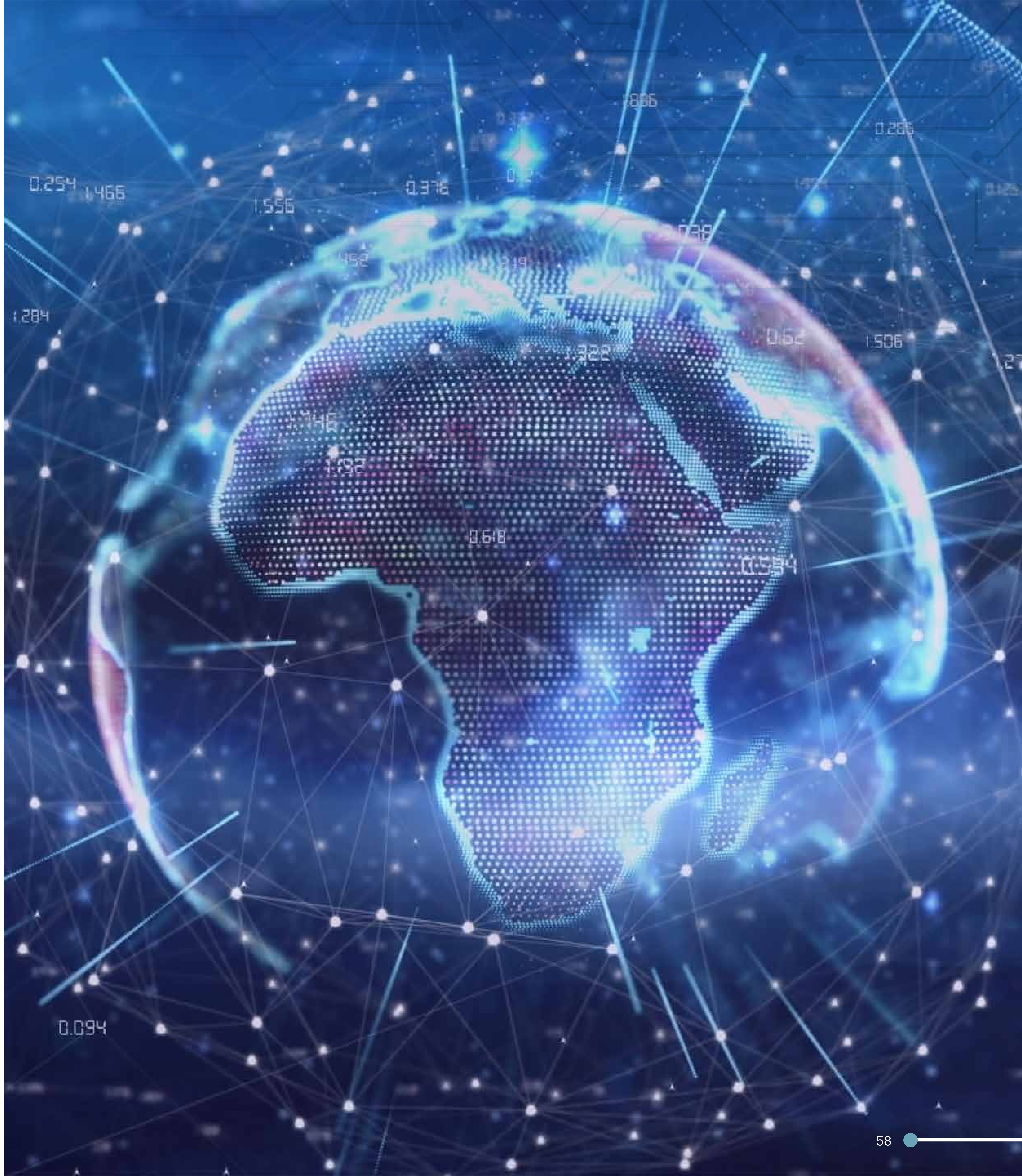
Historical context and recent trends

Over the past few decades, global equity markets have demonstrated remarkable growth and resilience. After the 2008 global financial crisis, markets rebounded following monetary policy easing globally, leading to a prolonged bull market. The onset of the COVID-19 pandemic in 2020 created unprecedented volatility that forced many economies into recession. However, unparalleled fiscal and monetary support, particularly in G20 economies, helped spur a rapid recovery and led to significant gains in equity indices worldwide.

The US equity market has historically served as a barometer for economic health, innovation, and investor sentiment. As we look forward to 2025, we must analyse the factors shaping this dynamic marketplace. The combination of technological advances, geopolitical considerations, regulatory changes, and macroeconomic conditions will all influence the US and global equities landscape. This article explores what investors can expect from the US and global equity markets in 2025.

Expected trends in 2025 and beyond

As we move into 2025, several key emerging trends are expected to shape global equity markets:



- **Technological innovation**: Advances in artificial intelligence (AI), blockchain, green technologies, and biotechnology are expected to drive growth in specific sectors, infusing the market with volatility and opportunity. The growing use of technology is undoubtedly revolutionising growth prospects across many industry sectors and driving growth, as showcased by equity market performance over the past 24 months. We expect this trend to continue.
- **Sustainability and environmental, social, and governance (ESG) investing**: In recent years, ESG criteria have become central to corporate investment strategies, as many investors now prioritise sustainable and ethical investments when making an investment decision.
- **Geopolitical dynamics**: Tensions between major economies, particularly the US and China, have raised risks of trade wars and economic decoupling, affecting market sentiment and investment strategies. Trade and tariff-related rhetoric is likely to increase during US President Donald Trump's second term.
- **Interest rates and inflation concerns**: With inflation rates in many economies still high, we expect it will take longer for the economy to stabilise. The interest rate trajectory and the monetary policies adopted by the central banks in the coming years will considerably influence equity valuations.

Economic growth forecasts for 2025

The International Monetary Fund (IMF) and various global financial institutions project moderate global economic growth rates averaging around 3% to 4% annually through 2025. Regions like Asia-Pacific may see slightly higher growth rates, attributed to strong domestic consumption and recovery post-pandemic-induced disruptions.

However, the US economy is projected to maintain moderate growth, with forecasts indicating GDP growth rates between 2% and 3% for 2025.

The key growth drivers

- **US Federal Reserve policies**: The US Federal Reserve will continue influencing the equity market through its monetary policy decisions, as striking a balance between combating inflation and fostering economic growth presents its challenges. With expectations of interest rates returning to normal, investors will pay close attention to any signs of future policy changes. We predict that Fed policy measures will remain focused on data. However, political factors are likely to play a greater role in shaping policy decisions in 2025.
- **Technological adoption and advancement**: As technology continues to permeate every aspect of our daily lives and the businesses around us, sectors involved in developing new technologies, such as software, renewable energy, and healthcare, are likely to experience robust growth. AI, biotechnology, renewable energy, and cybersecurity are projected to attract considerable investments. Companies that harness technology to enhance efficiency and deliver innovative products are likely to thrive. New frontiers, like robotics, drones, and quantum computing, are emerging and bound to revolutionise our future.
- **Emerging markets potential**: Countries in Latin America, Southeast Asia, and Africa are poised for growth, supported by their young demographic and rapid urbanisation, creating opportunities and challenges for global investors.
- **Global trade**: Due to greater economic growth, global trade is expected to expand, benefitting sectors reliant on international supply chains. Global companies are looking for diversified supply solutions to reduce the risk of relying on one supply source .
- **Changing consumer behaviour**: The shift towards e-commerce and digital services has transformed retail and service industries. As more consumers embrace online platforms, companies adapting to these changes are likely to outperform their traditional counterparts. The phenomena of quick delivery and options such as buy now, pay later offerings are further revolutionising consumer behaviour.

Sector outlook for 2025

Technology

The technology sector is expected to continue its upward trajectory, driven by various innovations. Companies specialising in cloud computing, AI, and semiconductors are positioned for robust growth, offering various investment opportunities. The ongoing digital transformation across multiple sectors will also bolster the tech industry.

Financial services

The financial sector will likely benefit from interest rate normalisation, improving banks' net interest margins. As fintech evolves, traditional banks will have to innovate to retain their market share. However, there are still opportunities to integrate technology into financial services. Preference will remain for banks with higher fee income and generating a sustainable higher return on assets (ROA) versus their peers in a similar industry. Expectations of relaxed regulations and more mergers and acquisitions should also support the financial sector.

Healthcare and biotechnology

After the pandemic, the healthcare sector's focus on innovation and biotechnology will attract significant investments. With an ageing population and increased healthcare spending, the healthcare sector presents a compelling opportunity. Biotech companies engaged in innovative therapies and pharmaceuticals will attract investors' interest, especially those focused on chronic diseases and personalised medicine. We believe the focus will be more on preventive healthcare solutions.

Consumer discretionary and retail

Consumer-friendly companies that adapt to changing shopping habits and prioritise sustainability will thrive and grow. E-commerce platforms and brands focused on ethical and sustainable practices that effectively adapt to digital sales strategies will particularly resonate with conscious consumers. Greater purchasing power and more young people entering the workforce has boosted consumer spending.

Energy transition

The growing emphasis on sustainability will amplify investments in renewable energy and related sectors. Investment in renewable energy and sustainable infrastructure is anticipated to surge, driven by rising concerns over climate change. Companies focused on solar, wind, and innovative energy storage solutions will likely flourish as the nation transitions towards cleaner energy sources and becomes a target for equity investment.

Geopolitical risks and challenges ahead

- **Economic headwinds**: Several potential headwinds exist that could dampen equity market performance in 2025, including higher inflation, which might deter consumer spending and increase borrowing costs.

SPX 500 sector performance in percentage points

	2019	2020	2021	2022	2023	2024*	2025 - Overview
Consumer Disc.	28	33	24	(37)	42	36	Overweight
Consumer Staples	28	11	19	(1)	1	20	Underweight
Energy	12	(34)	54	65	(1)	10	Neutral
Financials	32	(2)	35	(11)	12	33	Neutral
Healthcare	21	13	26	(2)	2	5	Neutral
Industrials	29	11	21	(6)	18	22	Neutral
Technology	50	44	35	(28)	58	39	Overweight
Materials	25	21	27	(12)	13	6	Underweight
Real Estate	29	(2)	46	(26)	12	10	Neutral
Communication	33	24	22	(40)	56	46	Overweight
Utilities	26	1	18	2	(7)	25	Neutral

Source: Bloomberg, * 13th December 2024 YTD

- **US-China relations**: The geopolitical landscape remains uncertain, particularly concerning US-China relations in Trump's second term. Trade policies, technology bans, and potential military conflicts could create significant market volatility. Investors will have to navigate sector-specific risks stemming from these tensions.
- **European Union (EU) dynamics**: The EU's ongoing efforts to integrate member economies while addressing challenges such as Brexit and rising populism will influence market dynamics in Europe. ESG regulations and a focus on digital markets will shape investment trends. Energy dependence, NATO, and lingering concerns about Russia could hurt the Eurozone.
- **Regulatory environment**: Increasing scrutiny and regulatory developments in data privacy, technology, and finance may create uncertainties for businesses. Companies will need to navigate these regulations effectively to maintain competitive advantages.
- **Cybersecurity threats**: As reliance on technology increases, so will vulnerability to cyberattacks. Companies that do not adequately manage cybersecurity risks may face reputational damage, financial losses, and potential stock price declines.
- **Global supply chain adjustments**: The pandemic exposed vulnerabilities in global supply chains, prompting companies to rethink their sourcing strategies. More companies are likely to adopt a "nearshoring" approach, which could impact manufacturing labour markets and global trade patterns and, in turn, affect market performance.

The performance of global equities markets has widely varied over the years:

Global equities markets performance in percentage points

	2019	2020	2021	2022	2023	2024*
S&P 500 INDEX	31	18	29	-18	26	29
RUSSELL 1000 GROWTH INDEX	36	38	28	(29)	43	37
RUSSELL 1000 VALUE INDEX	27	3	25	-8	11	18
MSCI EM	19	19	(2)	(20)	10	12
MSCI ACWI	27	17	19	-18	23	22

Source: Bloomberg, * 13th December 2024 YTD

S&P 500 returns in 2025 projected at 5%-10%

US economic growth is expected to remain healthy, supported by a lower policy rate, moderating inflation, and future growth prospects from the AI companies. Lower corporate taxes and deregulation should further support the equity market. Small-cap and domestic-focused equities are expected to benefit from positive earnings upgrades.

The consensus earnings per share forecast for the S&P 500 Index in 2025 stands at USD 272.55 per share, a 12.5% year-on-year growth. We expect the S&P 500 Index to trade in the range of 23.2x to 24.4x price-to-earnings multiple against its five-year long-term average multiple of 23.4x. Based on these assumptions, we expect the S&P 500 Index to trade in the range of 6,323 to 6,650 points, with a return potential between 5% and 10% from the current level of 6,034 as of 11 December 2024.

Trump's second term as President is among the key macro risks that must be closely monitored in 2025. It might trigger higher uncertainty in the first half of 2025, subject to his policy measures, including his energy policy, immigration measures, and tariffs. The geopolitical uncertainties remain elevated, and any further escalation might impact global economic growth.

Conclusion: The future of the global equity market

As we march toward 2025, the global equity market is poised to offer many opportunities alongside multiple levels of risk. Investors who can effectively navigate the complexities of geopolitical dynamics, technological advancements, and economic variables are well-positioned to identify promising investment opportunities across various sectors.

The equity market can reflect global economic health and support future growth by embracing innovation and sustainability while remaining vigilant to potential pitfalls. Investors must adopt a strategic, data-driven approach, using insights to position their portfolios effectively for the evolving market landscape.

Economic recovery, technological innovation, changing consumer behaviour, geopolitical dynamics, and other factors will shape the landscape in which companies operate and investors make decisions. Engaging with innovative trends and adapting to evolving market conditions will be vital for investors aiming to achieve favourable returns while managing risks in the unfolding economic environment.

We urge investors to embrace a diversified approach, focus on long-term growth sectors, and be keenly aware of macroeconomic variables and risks. These factors will be essential for those looking to capitalise on opportunities in the global equity universe.

The US equity market stands at a critical juncture. Having risen to all-time highs in 2024, it is primed for challenges and opportunities under Trump's second term because it largely hinges on the economic policies he will enact in 2025.

We expect the S&P 500 Index to deliver a more normalised return of 5% to 10% in 2025, compared to the 29% return in 2024. However, navigating uncertainties and risks arising from the Trump's second term as President will be key.

Global Fixed Income

Bonds are Back in Fashion

Oliver Kettlewell – Executive Director, Fixed Income Management

Bonds are Back!

Last year, we noted that the yield on the EM bond index was 7.5%, comfortably exceeding its long-term average and offering equity-like return potential. This forecast proved accurate, with global EM bonds delivering an 8% return in 2024.. Bonds have regained their status as a safe-haven asset for investors, delivering high single-digit returns. The post-COVID years of 2021-2022 marked the worst two-year performance for bonds on

The Bloomberg Emerging Market (USD) Bond Index Yield %

Source: Bloomberg

record, temporarily disrupting their safe-haven appeal.

But 2024 marked the second year in a row of positive performance, signaling a return to normalcy. Total returns aligned with the long-term annual average based on 30 years of Bloomberg Global EM Bond Index data.. This stellar performance was driven favorable fundamentals, including disinflation, moderate growth, and rate cuts, which provided strong tailwinds for the asset class. These factors suggest continued strength in fixed income as we move into 2025.

The Fed: A friend or foe to bonds in 2025?

Interest rates are a big driver of bond returns for better or worse. Higher rates typically suppress bond returns, while lower rates support fixed income performance.. In 2025, the Fed is forecasting 100 basis points of rate cuts according to last December's dot plot. This suggests a favorable stance by the Fed toward bonds in 2025.

The Fed has good reason to be confident about reducing interest rates. Inflation is falling, growth is slowing, and the Fed is far away from its "neutral rate" of 2.5% as per its dot plot. The main caveat to this optimistic outlook is the potential for increased inflation in 2025, driven by Donald Trump's proposed inflationary policies.. Tariffs and tax cuts could push up prices to the extent that the Fed may feel forced to raise interest rates at some point during the year. However, we view this as a tail-risk event rather than a baseline scenario for bond investors. We believe that Trump is unlikely to enact punitively high tariffs that shoots the US economy in the foot. Moreover, tariffs could hurt growth, the other side of the Fed's dual mandate, leading the central bank to continue its cutting path.

Consequently, we anticipate a series of small, bond-friendly rate cuts as the most likely scenario for 2025.

Carry: A bond's best friend

Coupon income—carry—drives performance for EM bonds. Last year carry income accounted for more than 6% of the overall 8% return, and coupon income is starting 2025 comfortably above 5%. Carry is crucial for mitigating downside risks like spread widening, duration volatility, or credit events. For instance, if a bond's price declines by 5% but pays a 5% coupon, the investor breaks even.. Many EM issuers, dealing with the aftermath of the higher-for-longer rate environment, have issued bonds at elevated capital costs.

High Yield: Tight Spreads vs. Strong Fundamentals

High yield (HY) bonds outperformed investment grade (IG) bonds last year by a wide margin. HY's 16% remarkable return was four times the 4% return from IG. Top performers included Egypt, benefiting from GCC and multilateral donor financial support. Turkey's market-friendly monetary policies also played a crucial role in boosting demand for Turkish assets.

Looking ahead, we believe HY bonds are well-positioned for strong performance in 2025, supported by favorable growth, reduced inflation, and continued rate cuts by central banks.The Fed's dovish path should allow EM central banks to follow suit, boosting price returns for bonds to complement the aforementioned carry advantage of EM bonds.

Conclusion

Last year, we advised investors not to wait for a so-called 'magical' inflection point in the bond market. We wrote "Going into 2024, some investors are waiting for the first rate cut or for inflation to hit the magical 2% target as the catalyst for buying bonds. This approach risks missing the rebound. Bonds are likely to bounce back many months before the Fed's first cut." That proved sage advice last year, and we would submit a similar opinion going into 2025.

Investors should not be discouraged by potential risks, such as Trump tariffs, trade wars or geopolitical conflicts. There will always be risks on the horizon, but we know from historical evidence that bonds offer good value as we head into a new year. With high coupon income, a favorable growth-inflation mix, and central banks adopting an easing stance, the outlook for bonds in 2025 remains positive.. The outlook remains favorable for global EM bonds to achieve mid-single-digit returns in 2025.

Emerging Market Outlook

Emerging Market Outlook

India's Economy Remains Steady While China Confronts Hurdle

Osama Mahmoud – CEO of FAB Securities
Ahmad Bani Hani – AVP, Research FAB Securities

We maintain a positive outlook on emerging market equities as easing inflation in the US benefits India and emerging economies. In response to the decline in inflation, the US Federal Reserve announced two policy rate cuts after September 2024. Meanwhile, the recent strengthening of the dollar index because of the US election results is expected to benefit export-oriented companies in emerging markets and China. Lower energy prices and reduced current account deficits should also benefit emerging markets.

In September 2024, the Chinese government announced multiple stimulus measures aimed at stabilising the real estate sector and supporting the broader economy. Investors responded positively to these initiatives, increasing the valuation of the benchmark Shanghai Stock Exchange Composite Index (SHCOMP Index).

The SHCOMP trades at a price-to-earnings (P/E) ratio multiple of 13.3x for the 2024 financial year, a premium to its five-year and 10-year averages. Meanwhile, solid contributions from India's manufacturing and service sectors are expected to drive healthy economic growth in 2024 and 2025.

Although NIFTY50, the benchmark index in India, recently experienced a correction due to weak earnings growth among Indian companies in the second quarter of the 2025 financial year, which ended in September 2024, it offers strong growth prospects, supported by a resilient economic forecast and expected robust earnings growth in the medium term.

The SHCOMP has returned to an upward trajectory following negative returns in 2023 and is expected to remain positive. However, investors should remain cautious of potential downturn risks, including weak domestic consumption and the possibility of a trade war with the upcoming US administration.

India to remain a global growth leader while China to grow at a slower rate

Emerging economies, particularly India and China, have become key drivers of global economic growth, making substantial contributions in 2023 and 2024. Over the last two decades, China, with its state-led model, has achieved rapid industrialisation and urbanisation, cementing its position as the world's manufacturing hub and the second-largest economy by GDP. This growth has propelled its export-driven strategy, large-scale infrastructure development, and technological advances.

India, the fifth-largest economy, boasts a diverse economic structure encompassing key sectors such as services, agriculture, and manufacturing. The country has become a global leader in IT and outsourcing, supported by a large, young, and cost-effective workforce.

In the years following the pandemic, emerging economies faced a turbulent landscape marked by challenges such as the ongoing Russia-Ukraine conflict, rising tensions in the Middle East, surging energy prices, and elevated interest rates. These factors affected emerging economies, including China, one of the world's major economic powers.

Historically driven by its manufacturing sector, China's economy experienced a challenging period of stagnation in the post-pandemic period. This was evident in the Manufacturing Purchasing Managers' Index (PMI), which largely remained between 49 and 51, indicating a lack of growth and a struggle to regain momentum.

However, China's service sector supported economic development, with the PMI consistently remaining above 50 since January 2023, indicating steady expansion. Despite these mixed signals, China's economy showed resilience. According to the International Monetary Fund (IMF), China's GDP grew by 5.2% in 2023, outpacing the 1.7% growth recorded by advanced economies. However, this growth still fell short of pre-pandemic levels.

The IMF has projected that China's growth will slow further, with forecasts of 4.8% in 2024 and 4.5% in 2025. This deceleration is attributed to factors such as a housing crisis threatening to destabilise the real estate market, weak domestic consumption driven by lower household income, and the threat of US President Donald Trump imposing higher US tariffs in his second term. These issues are challenging China's export-driven model.

The government has introduced several stimulus measures to stabilise the economy, which might bring short-term relief. However, their long-term effectiveness remains uncertain, especially amid elevated interest rates. Investor concerns are also heightened by the 3.5% decline in earnings from the SHCOMP in 2023, reflecting the ongoing economic headwinds.

Despite a challenging global environment, the Indian economy demonstrated remarkable resilience in 2023 by expanding by 8.2% and emerging as the world's fastest-growing major economy. The robust performance of the manufacturing and construction sectors drove this robust growth.

The manufacturing sector is essential to India's economic growth and has benefited from government initiatives like the Production-Linked Incentive (PLI) scheme and the 'Make in India' campaign, which attract investment and strengthen domestic production capabilities. As a result, India's Manufacturing PMI consistently remained in expansionary territory — above the 50-mark — indicating a sustained growth in industrial output post-pandemic. Looking ahead, the momentum

Figure 01: Real GDP Growth (%) - Advanced Economies, EM & Developed Economies, China, India, and US

Source: IMF

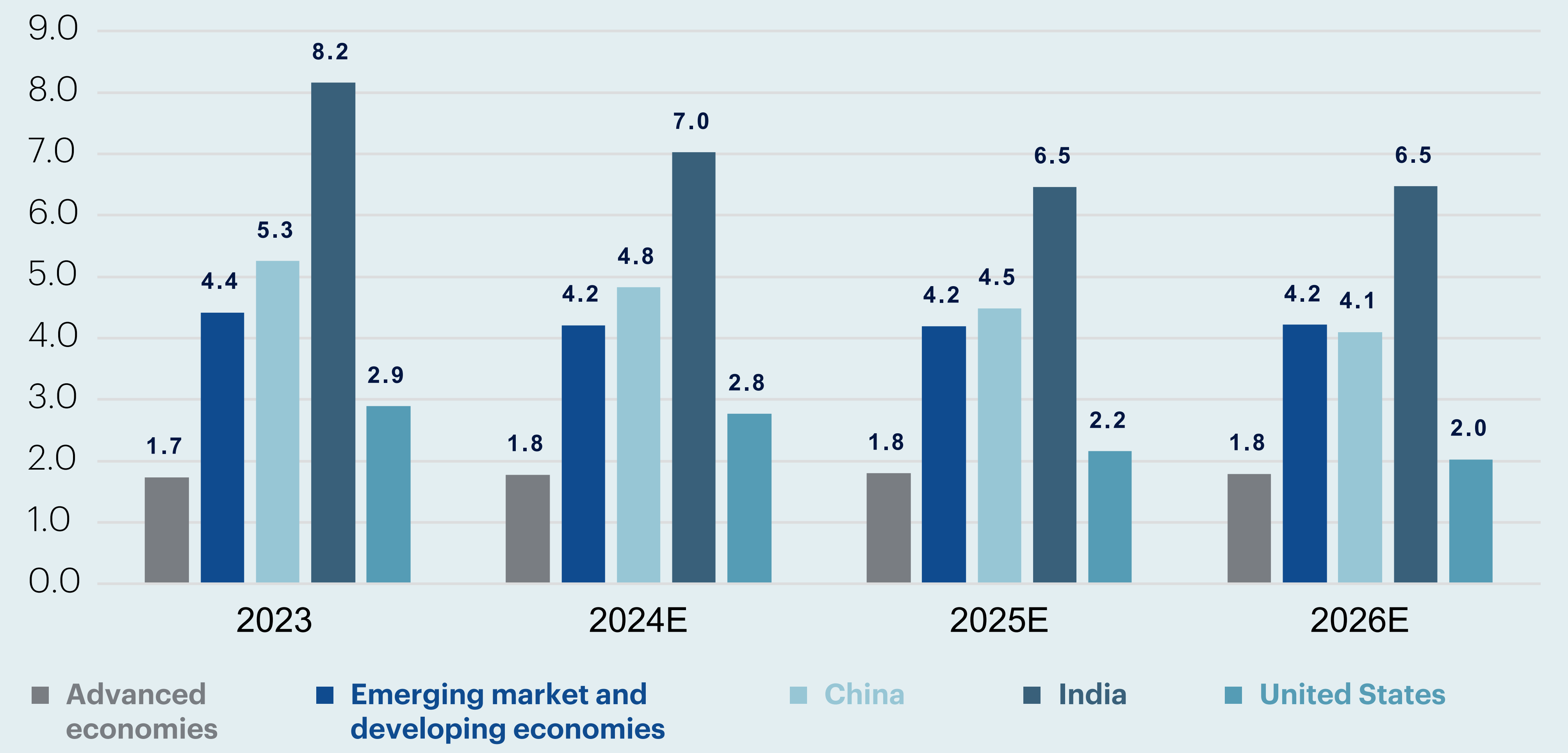
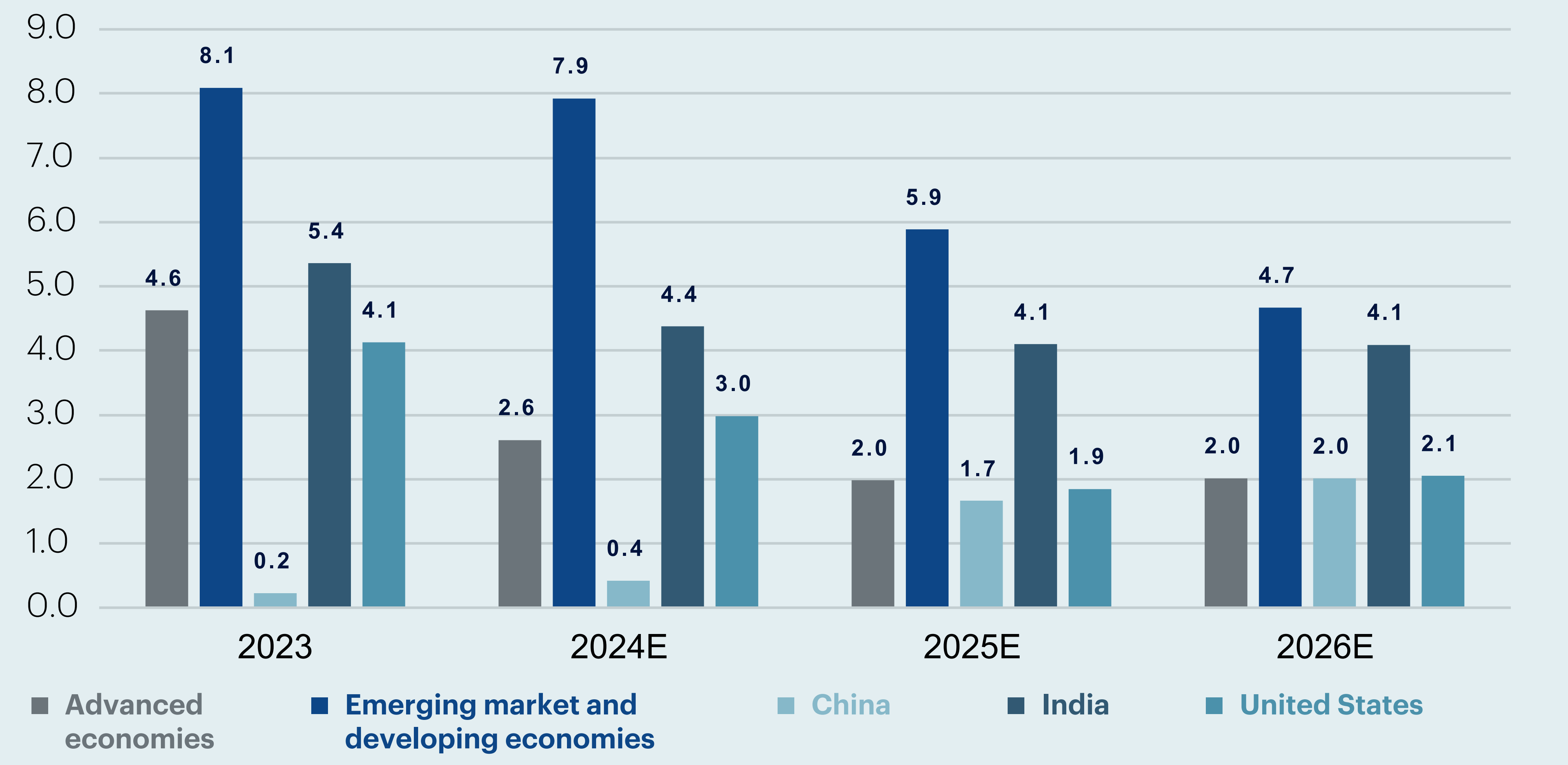


Figure 02: Inflation Trend (%) - Advanced Economies, EM & Developed Economies, China, India, and the US

Source: IMF



in the manufacturing sector is expected to continue over the medium term, fuelled by a gradual recovery in private investments and continued government support.

The Indian government also supported the economy through substantial strategic public expenditure, especially in infrastructure development, further stimulating growth in construction and allied sectors. Additionally, strong domestic consumption, driven by rising incomes and demand, also contributed to the economy's stability. The services sector also experienced healthy post-pandemic growth, with the Services PMI averaging 58.3 since January 2022, indicating robust and sustained expansion.

However, the Indian economy faced several challenges throughout 2023. Geopolitical tensions in the Middle East, the ongoing Russia-Ukraine conflict, and other global disruptions led to supply chain disruptions and higher energy costs. Inflation remained elevated, averaging 5.4% in 2023, exceeding the Reserve Bank of India's target range of 2-4%. Despite these challenges, inflation is projected to moderate in the coming years, with estimates of 4.4% in 2024 and 4.1% in 2025.

The IMF forecasts India's GDP growth to moderate to 7.0% in 2024 and 6.5% in 2025. While this marks a slowdown from the high growth rates of 2023, India is still expected to outpace advanced and emerging economies. A recovery in private consumption and improvements in rural incomes will drive this sustained growth. However, government consumption is expected to remain subdued due to ongoing fiscal consolidation efforts.

China's stimulus fuels the SHCOMP's performance, while India's NIFTY50 faces hurdles

As of mid-November 2024, most major indices are trading at their highest levels since January 2023, except for the NIFTY50, which attained an all-time high in September 2024. However, it faced a setback in the quarter ending September 2024 due to weak earnings and a significant outflow of foreign portfolio investments (FPI). Rising US Treasury bond yields, a strengthening dollar index, and premium valuations drove these outflows.

The SHCOMP demonstrated a robust recovery in 2024 after facing negative returns in 2023, driven by reduced private consumption and a slowdown in the real estate market. In 2024, it has outperformed the NIFTY50 and the MSCI Emerging Markets Index on a year-to-date basis, largely supported by the Chinese government's announcement of stimulus packages, attractive discounted valuations, and increased foreign investment inflows, which further bolstered the SHCOMP.

Since January 2023, the S&P 500 Index has consistently outperformed both Indian and Chinese indices, driven by solid growth prospects and the performance of technology stocks. Meanwhile, the NIFTY50 outperformed the MSCI Emerging Markets Index in 2023 and 2024, supported by robust economic growth and healthy earnings.

However, the Indian market corrected due to weak earnings in the quarter ending September 2024 and a significant outflow of FPI. These outflows were primarily driven by rising US Treasury bond yields, which made US assets more attractive, alongside better risk-adjusted returns from US equities. Additionally, the premium valuation of Indian equities, a softening in gold prices, and the strengthening dollar index fuelled the FPI outflow.

Despite these challenges, the NIFTY50 outperformed Chinese and other emerging market indices since January 2023. This robust performance is underpinned by strong government spending and a favourable economic environment in India. Apart from the US, Chinese equities benefited from the outflow of FPIs from India due to government support and discounted valuation.

In 2024, the performance of the MSCI Developed Markets Index and the NIFTY50 remained closely aligned. However, a sharp drop in Indian equities in October 2024 led to a widening gap in performance, resulting in the MSCI Developed Markets Index outperforming the NIFTY50. The SHCOMP rebounded strongly after enduring negative returns in 2023, which were driven by weak economic growth, subdued private consumption, and a slowdown in the real estate market. Year-to-date, it outperformed the NIFTY50 and the MSCI Emerging Markets Index. This recovery was bolstered by the Chinese government announcing several stimulus packages to boost equity markets and revive the real estate sector.

As of mid-November 2024, the emerging market index gained 10.0%, the Hang Seng Index (HIS) 14.0%, the S&P 500 25.8%, the SHCOMP 16.6%, and the NIFTY50 11.1% on a year-to-date basis. The strong growth of developed markets, particularly the US, has been driven by technology stocks and positive economic growth outlooks. Meanwhile, the performance of Indian and Chinese equities supported emerging markets.

The SHCOMP is expected to continue positive momentum, supported by attractive discounted valuations and ongoing policy support from the Chinese government. In contrast, India's market has witnessed substantial foreign portfolio outflows, with USD 11.2 billion withdrawn in October 2024 alone. This contrasts sharply with inflows into Chinese equities, which have benefitted from government stimulus measures and their comparatively discounted valuations.

Chinese and Indian markets are trading at a premium to their historical averages

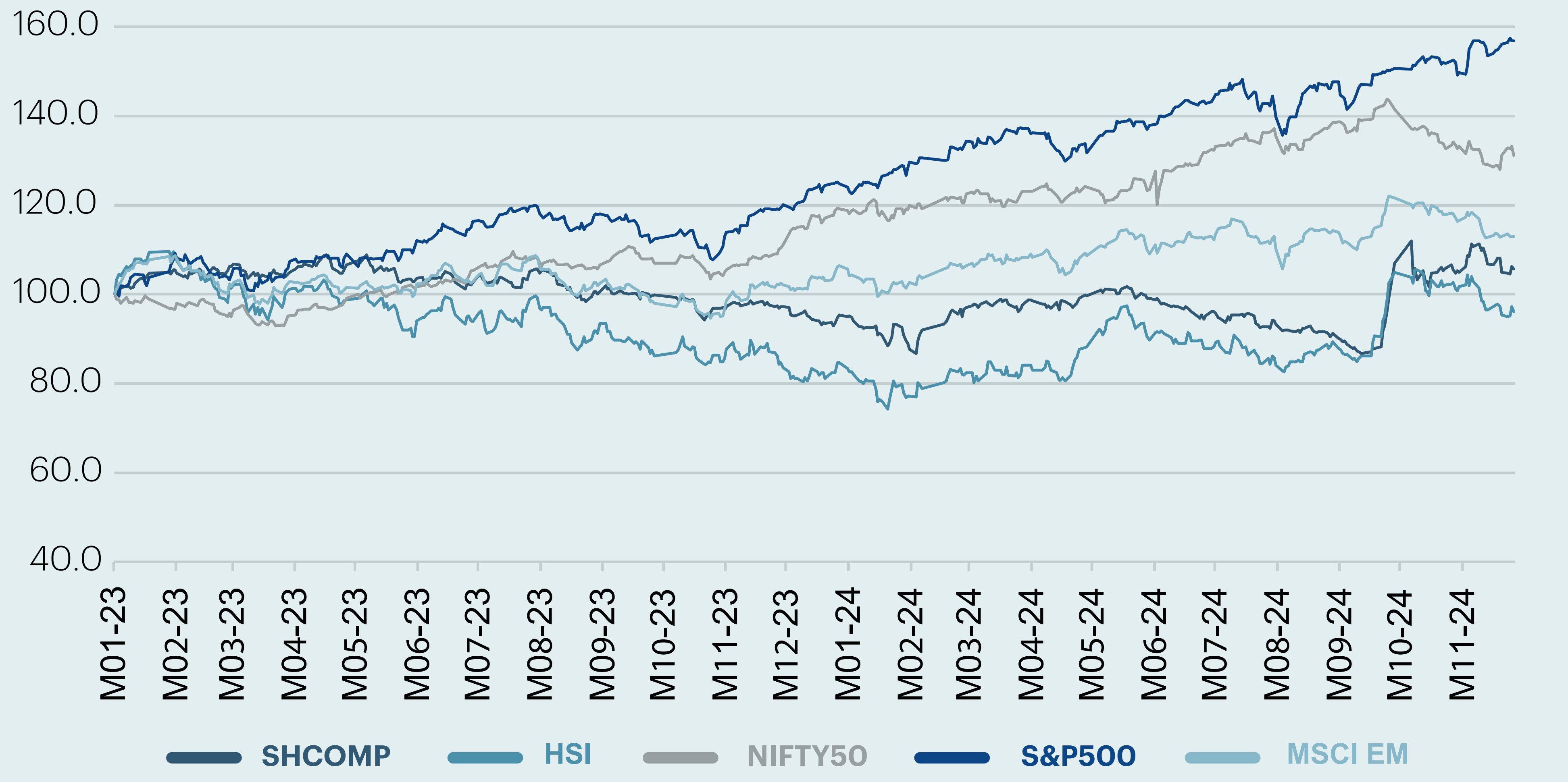
The NIFTY50, SHCOMP, and S&P 500 indices are trading at premiums relative to their historical five-year averages. Notably, the S&P 500 trades at a premium compared to Indian and Chinese equities. Since the pandemic, the valuation trends of the NIFTY50 and S&P 500 have been similar.

From mid-2021 to the end of 2023, the NIFTY50 held a modest valuation advantage over the S&P 500. However, in 2024, the US index closed this gap and is now trading at a premium over the Indian index, largely because of the recent setbacks in Indian equities. Meanwhile, the SHCOMP, which has historically traded at a significant discount to the NIFTY50, also experienced a decline in this valuation gap in 2024. Despite this, the SHCOMP was valued below its five-year and ten-year averages for most of 2024.

However, after Chinese policymakers announced stimulus measures in September, the SHCOMP has since recovered and is now trading at a premium to its historical averages. Despite this rebound, the SHCOMP remains undervalued compared to the S&P 500 and NIFTY50, reflecting investor caution regarding China's long-term economic growth prospects. The relatively lower valuation of Chinese equities is also attributed to the higher earnings growth potential and return on equity (ROE) of the S&P 500 and NIFTY50.

Figure 03: Trends of the SHCOMP, HSI, NIFTY50, S&P 500, and MSCI Emerging Markets Indices

Source: Bloomberg, All Index Values rebased to 100 in January 2023



Earnings projections for the NIFTY50 indicate strong growth, with earnings expected to increase by 22.7% in the 2024 financial year and 14.2% in 2025, underpinned by strategic government spending and robust consumer demand. Indian businesses are expected to recover in the second half of the 2025 financial year — ending in March — following a subdued performance in the first half. This recovery is expected to be driven by favourable monsoons and rising rural income, which are likely to boost consumption and further support economic growth.

In contrast, the SHCOMP's earnings are expected to grow at a more modest pace of 9.2% in the 2024 financial year, 9.5% in 2025, and 11.2% in 2026, respectively, underpinned by the stimulus measures aimed at stabilising the real estate sector and boosting domestic consumption.

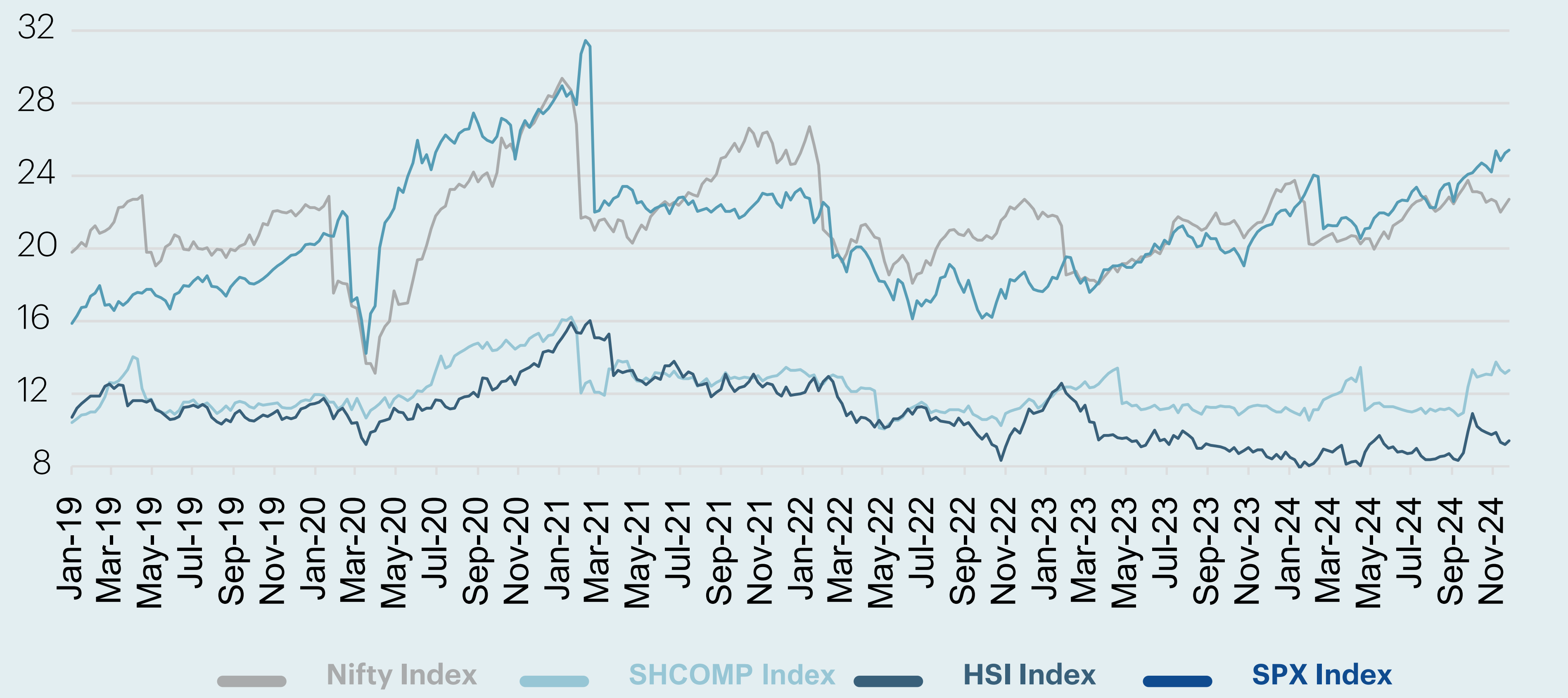
Meanwhile, the S&P 500 is projected to see earnings growth of 7.2%, 15.2%, and 11.4% over the same period. The SHCOMP offers more attractive dividend yields than the NIFTY50 and S&P 500, primarily due to its discounted valuation. However, the stronger earnings growth and higher possible ROE prospects of the US and Indian indices continue to play a vital role in their premium valuations.

Figure 05: Current Valuation Based on FY2024

	PE (x)	PB (x)	Dividend Yield (%)	ROE (%)
SHCOMP	15.8	1.4	2.7	8.7
HSI	10.5	1.1	4.1	10.2
NIFTY50	22.7	3.7	1.3	16.1
S&P 500	26.8	5.2	1.3	17.6

Figure 04: NIFTY50, SHCOMP, HSI, and S&P 500 1-year forward PE Multiple on weekly basis

Source: Bloomberg



India

Higher consumption and private investment support a positive economic outlook for India

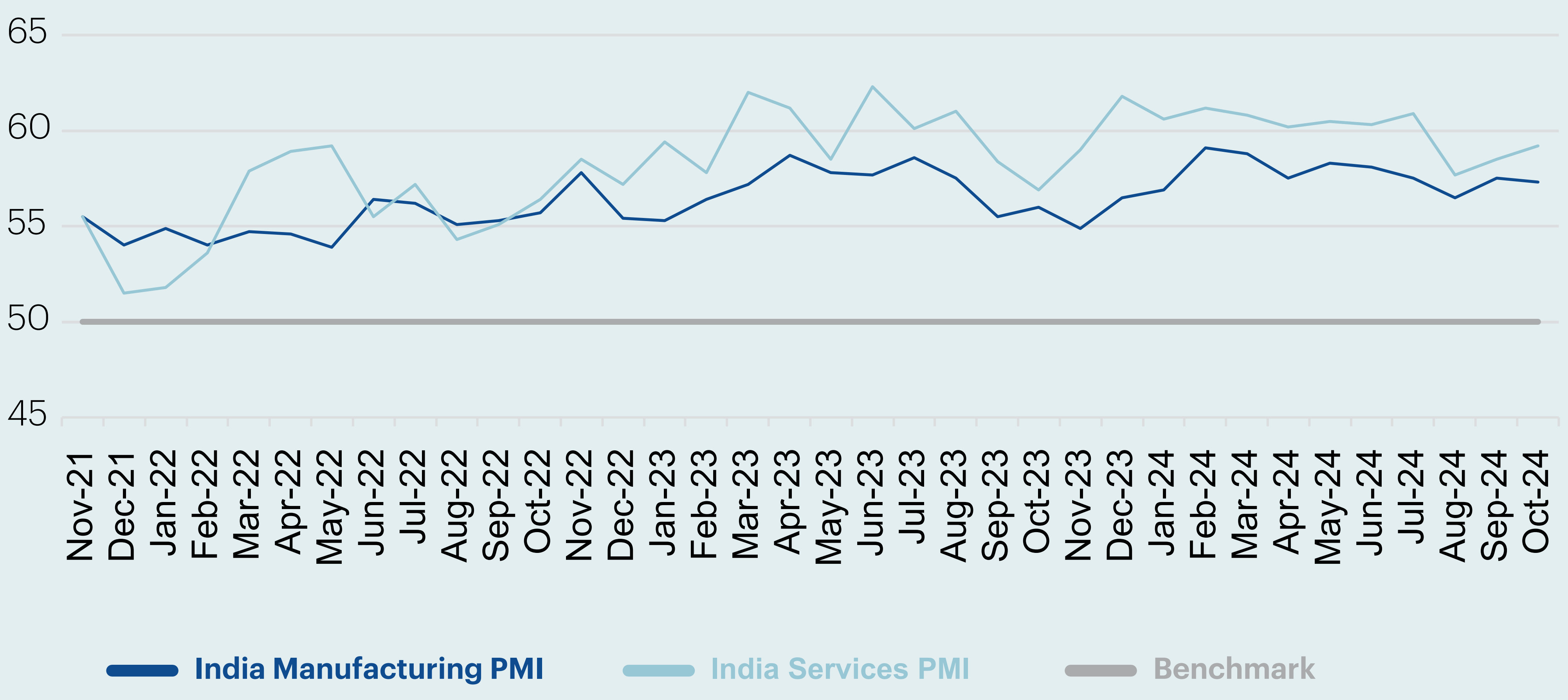
India's economy remains the fastest-growing major economy globally, with solid growth expected to continue in the medium term. In the 2023 financial year, India's real GDP expanded by an impressive 8.2%, surpassing the previous year's growth rate of 7.0%. This growth was fuelled by the robust performance of the manufacturing and services sectors, with the manufacturing sector emerging as a key driver of India's economic growth.

The country's Manufacturing PMI has consistently remained in expansionary territory, staying above the 50-mark after the pandemic, reflecting the sector's strong and dynamic performance. Export orders, domestic demand, and favourable market conditions drove this performance. With investments in electronics, textiles, and automobiles, India's manufacturing sector is expected to reach USD 1 trillion in the medium term.

Meanwhile, the services sector remains a crucial pillar of the economy, supported by strong foreign direct investment inflows and government initiatives. The Services PMI has consistently remained in expansionary territory

Figure 06: Manufacturing and Services PMI of India

Source: Bloomberg



since September 2021, highlighting the sector's sustained growth and reinforcing its positive outlook.

Complemented by elevated household real estate investment, public infrastructure investment has significantly driven GDP growth. As a result, India's real GDP is expected to grow by 7.0% in the 2024 financial year, according to the IMF. This growth will be driven by increased consumption, particularly in rural areas. In the 2025 financial year, India's economy is projected to expand by 6.5%, supported by increased purchasing power, strong agricultural performance, and a rebound in private sector investments.

However, this growth will face some headwinds, including weaker-than-expected demand and subdued credit growth due to regulatory measures to curb unsecured lending. Reduced fiscal spending and tightening monetary policy will also weaken urban demand.

Despite these challenges, India is seeing a strong resurgence in consumption, especially following the pandemic slowdown. In the first quarter of the 2025 financial year, improved rural conditions and a slowdown in inflation bolstered consumption.

The outlook for consumption remains positive, with government support driving strong rural demand. Fixed investments have also seen an uptick, reflecting increased household and private corporate investments. In the medium term, conditions remain favourable for attracting private investments. On the other hand, government expenditure has declined in the short term due to reduced fiscal spending caused by budgetary constraints. However, in the medium term, government expenditure is expected to rise again, particularly as the government accelerates its efforts to develop infrastructure across the country. Despite facing immediate challenges such as consumer inflation and low per capita income, India's growth trajectory remains resilient.

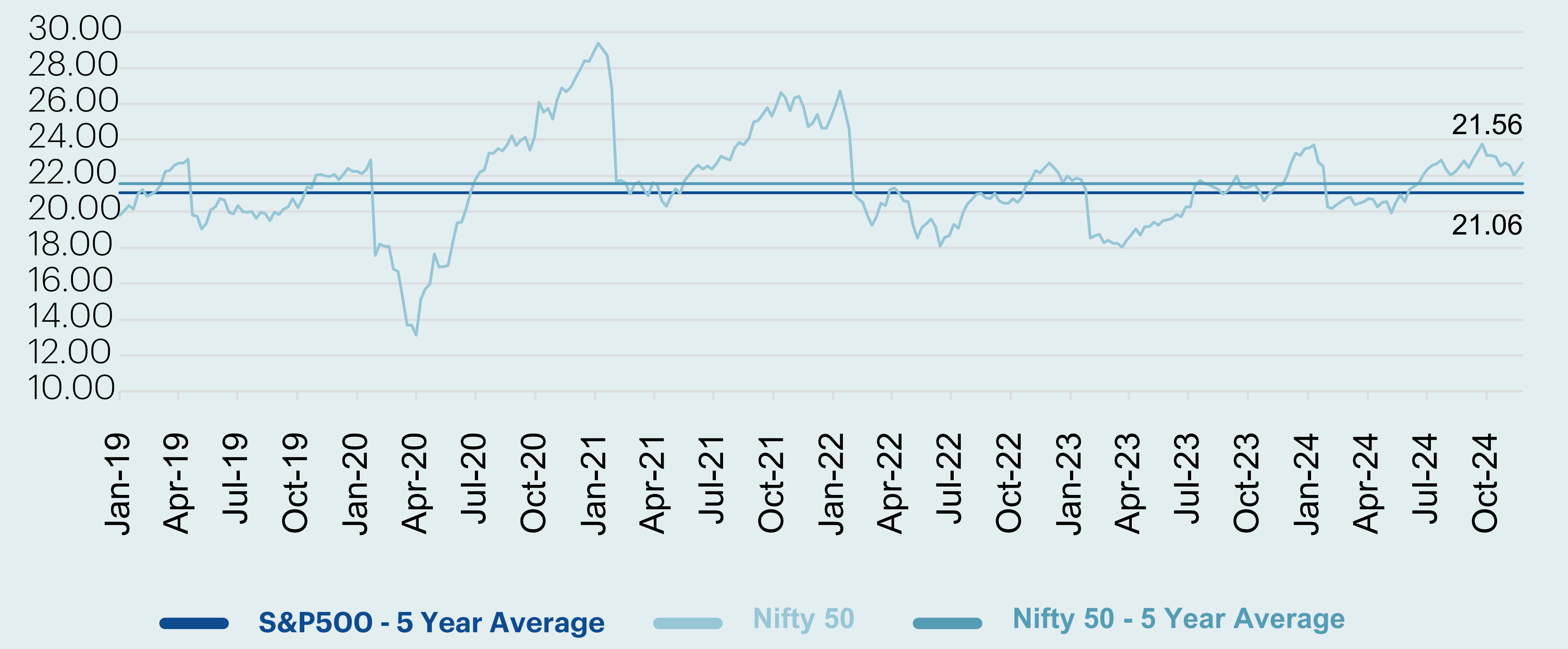
Favourable long-term outlook for Indian equities despite short-term risks

Figure 07: Valuation of MSCI Emerging Markets Index, DM, SHCOMP, HSI, NIFTY 50 and S&P 500 for 2024

Source: Bloomberg

Figure 08: NIFTY Index PE Multiple of FY2024 vs. S&P 500 Index Five-Year Average

Source: Bloomberg



The Indian equity market, particularly the NIFTY50, has demonstrated impressive growth and resilience in recent years, with projections showing continued strong performance between 2023 and 2025. Earnings per share (EPS) for the NIFTY50 are expected to grow by 16.1% in 2024 and 14.0% in 2025, building on the robust growth of 18.6% in 2023. This growth is underpinned by favourable conditions, including government initiatives such as the Production Linked Incentive (PLI) scheme and the 'Make in India' campaign, which have strengthened the corporate sector and boosted manufacturing. These efforts and the rising demand have created a positive outlook for the Indian equity markets.

The NIFTY50 is also anticipated to provide a healthy ROE, with projections of 14.96% in 2024 and 15.0% in 2025, signalling attractive investment opportunities. However, concerns persist regarding the earnings outlook, particularly following the weak results in the quarter ending September 2024 and the potential market corrections due to the high valuation of Indian equities.

Despite this, the Indian equity market has demonstrated resilience, reaching new all-time highs in 2024. Before the recent downturn in earnings in the quarter ending September 2024, Indian stocks consistently outperformed their emerging market peers, further solidifying the market's reputation for solid growth.

The NIFTY50's premium valuation compared to global equities is expected to continue, driven by the country's high economic growth and improving inflation figures. However, recent challenges, such as foreign investors withdrawing investments, have led to a short-term reversal in investment flows. This trend is expected to be temporary, as India remains an attractive investment destination with robust economic fundamentals.

A vital indicator of the market's strength is the growing representation of Indian stocks in global indices. As of October 2024, Indian equities made up nearly 18.84% of the MSCI Emerging Markets Index, a significant increase from 8.1% in July 2020. The country's vigorous initial public offering (IPO) activity reflects this growing prominence. In 2024, 292 companies went public, raising approximately USD 16.6 billion, following a similarly impressive 2023 in which 236 IPOs raised USD 7.9 billion. Notable IPOs such as Hyundai Motors India, Swiggy India, and NTPC Green contributed to a surge in capital raising, underscoring the healthy prospects for Indian equities despite ongoing global challenges.

Figure 09: Fundamentals of the Nifty Index

	2023	2024	2025	2026
EPS	920.08	1,068.20	1,217.51	1,355.88
% Change in EPS	18.6%	16.1%	14.0%	11.4%
Dividend Yield	1.33	1.42	1.53	1.77
PE	23.76	22.73	19.94	17.9

Source: Bloomberg

China

Government support struggles to revive economic growth amid domestic weakness, property issues, and geopolitical risks

China's economy, the second largest in the world, has been powered by its strong manufacturing, exports, and technological growth. However, despite its past successes, it faces significant challenges ahead. According to the IMF, China's real GDP growth in the 2023 financial year was 5.3%, but it is expected to slow to 4.8% in 2024 and 4.5% in 2025.

Although China's growth far exceeds advanced economies, it is still below pre-pandemic levels. This slowdown is driven by internal and external factors, with the ongoing downturn in the property sector being a major drag on overall economic performance. Domestic demand remains weak despite government measures such as lowering interest rates and reserve requirements. Contributing factors include low consumer confidence, slow household income growth, and falling property prices. While fiscal support from the central government has helped local governments overcome budget challenges, more comprehensive structural reforms are needed to encourage long-term consumption and investment.

Figure 10: Caixin Manufacturing & Service PMI of China

Source: Bloomberg

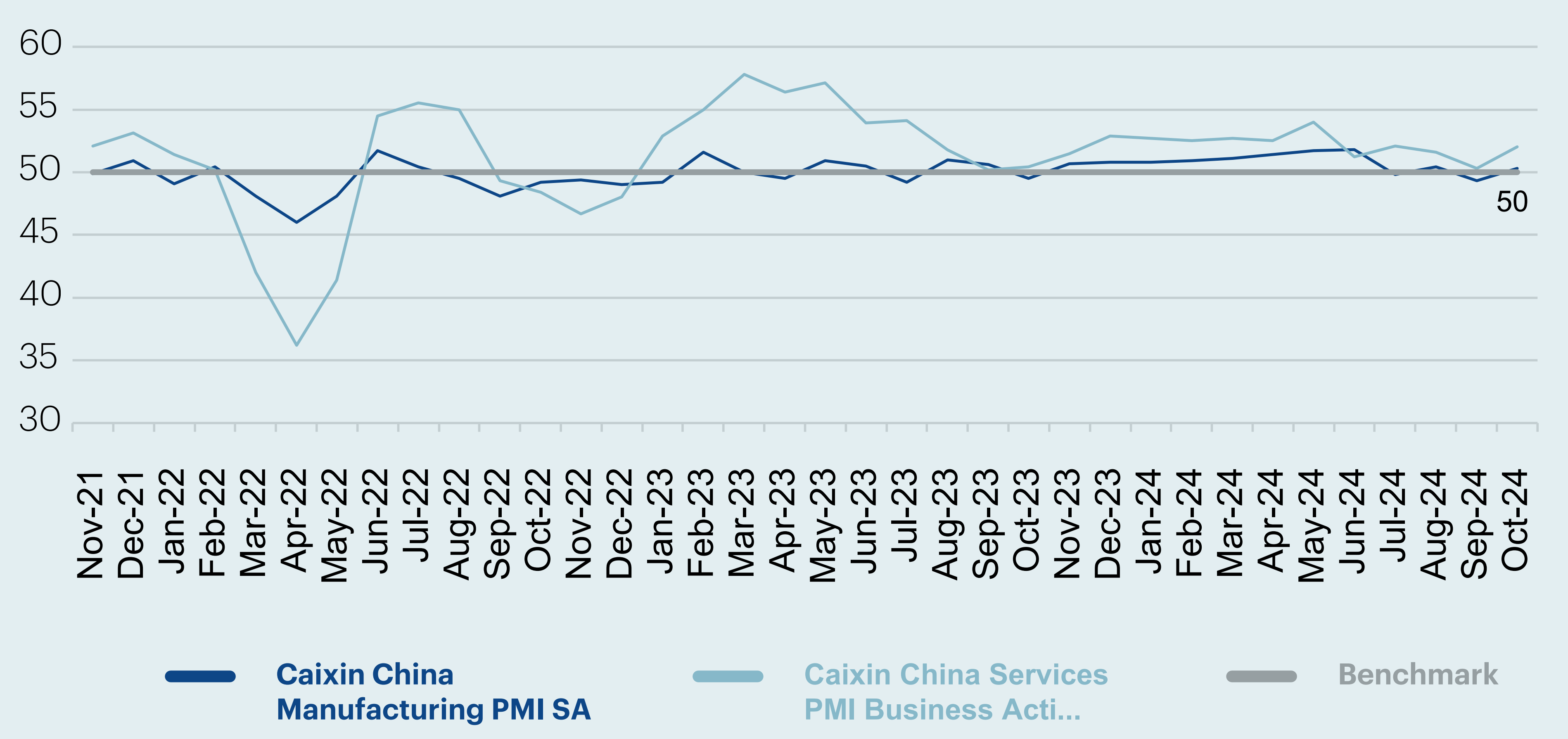
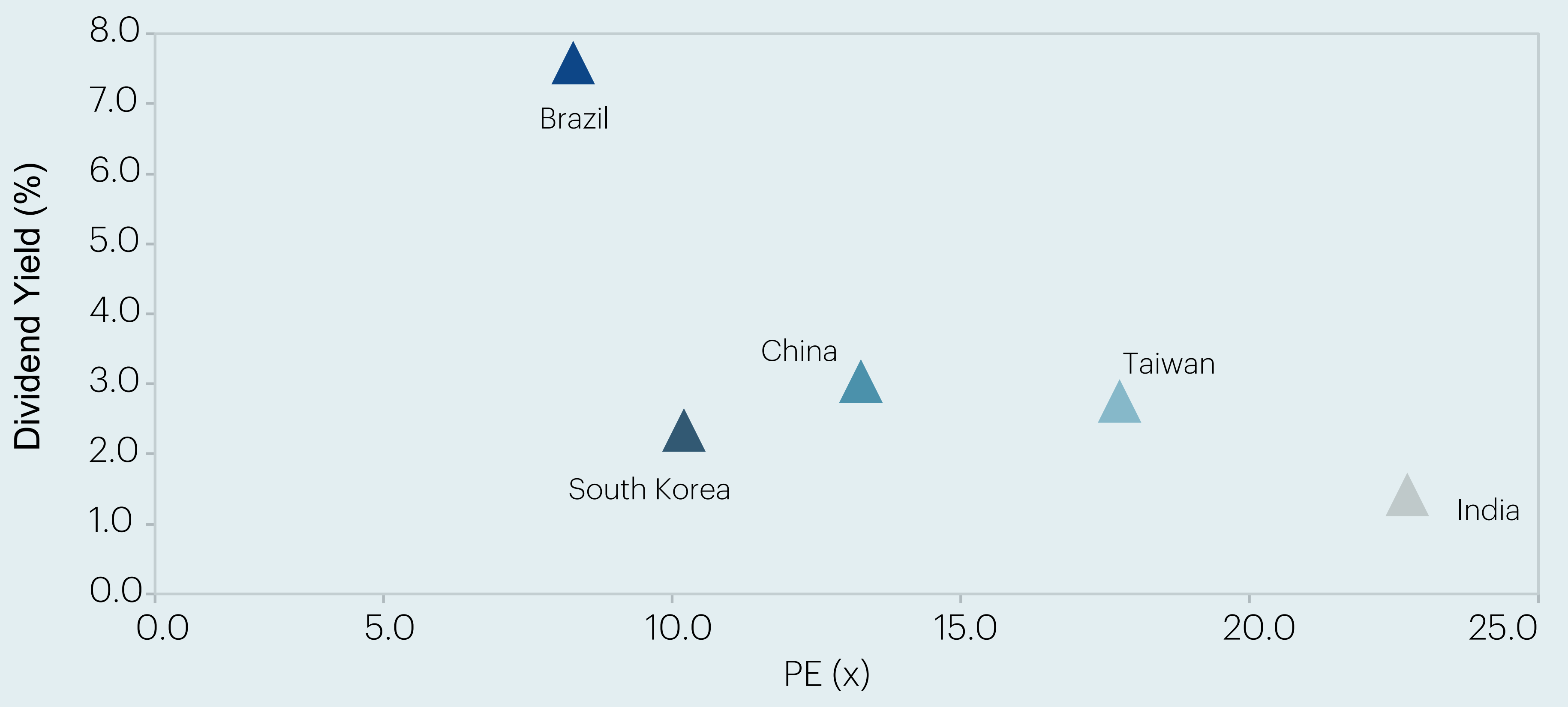


Figure 11 : EM Country-specific valuation for FY2024

Source: Bloomberg



Rising geopolitical tensions, particularly with the US over trade, technology, and Taiwan, pose significant risks to China's economic stability. Long-term challenges such as an ageing population is expected to slow productivity, while rising debt levels, particularly at the local government level, could limit China's ability to invest in infrastructure. Additionally, the struggles of the real estate sector and other internal issues have contributed to a less favourable economic environment, complicating efforts to sustain robust growth.

A significant upside risk on the horizon is the potential impact of a new Trump administration, with escalating trade tensions and possible tariffs that could disrupt China's export-driven economy. However, China's share of US imports is already declining, partially offsetting the impact of US tariffs. Furthermore, the ongoing decoupling of technology between China and advanced economies could limit innovation and economic growth. The trend of global manufacturers diversifying supply chains away from China, known as the 'China Plus One' strategy, by shifting production to countries like India, Vietnam, and Southeast Asia, is challenging China's dominance in manufacturing.

As manufacturers seek alternatives, China's dominance as the global manufacturing hub is increasingly at risk. Inflation in China remains low, with a projected increase from 0.23% in the 2023 financial year to 0.42% in 2024 and 1.66% in 2025, reflecting persistently weak domestic demand. The Caixin Manufacturing PMI, a key economic indicator, has shown little momentum since June 2023, fluctuating within the range of 49.0 and 52.0. This stagnation signals that the manufacturing sector is facing ongoing challenges. These factors and weak domestic demand underscore the increasing strain on China's economy.

In contrast, the Services PMI has remained above the 50-mark since February 2023, demonstrating greater resilience in this sector. Since the pandemic, local manufacturing has increased around the world, reducing the dependency on Chinese products. At the same time, geopolitical tensions and the property crisis have hindered China from achieving the high growth rates it has enjoyed over the past few decades. Despite these challenges, the Chinese government continues to implement policy support measures, providing some potential for economic recovery.

Optimistic outlook for Chinese equities amid government support

The SHCOMP is currently trading at a P/E multiple of 13.3x, representing a premium over its five-year average of 12.12x. After a decline of 1.5% in 2023, the EPS of the Chinese index is projected to grow 5.2% and 10.4% in 2024 and 2025, respectively.

However, the Hang Seng Index (HSI) is currently trading at a P/E multiple of 9.4x, representing a discount over its five-year average of 10.9x. Additionally, the earnings of the HSI is projected to grow 6.9% and 5.7% in 2024 and 2025, respectively.

However, investors remain cautious amid concerns about the property sector, dampened consumer confidence, and the possibility of a renewed trade war with the US. Despite the government's recent stimulus package, its efforts to stabilise the property bubble have been challenging for households and businesses, with retail sales currently below their pre-pandemic.

Furthermore, a potential US tariff war could negatively affect Chinese manufacturing exports and technology imports. However, China's share of US imports has declined from 21% to 12% over the past four years.

Despite these challenges, Chinese equities remain attractive from a valuation perspective, trading at a relatively discounted valuation compared to other developed markets. Recent Chinese policy announcements indicate that the government is determined to support the stock market. However, it is expected to experience a moderate improvement in the outlook for earnings growth.

Foreign investors flowed into Chinese equities following the stimulus announcement, but future inflows will depend on continued fiscal support and structural reforms. This surge is reflected in the P/E ratio, which rose from 10.93x on 20 September to 13.76x on 12 November, signalling improved valuations and demand for Chinese equities. The SHCOMP and the HSI are expected to provide dividend yields of 3.03% and 3.98% for 2024.

The combined equity markets of China and Hong Kong launched 76 IPOs in 2024, raising about USD 12 billion, and launched 150 IPOs in 2023, raising USD 15.5 billion. Despite the decline in IPO activity, we remain optimistic about Chinese equities, bolstered by ongoing government intervention and the expected recovery in consumer demand.

Figure 12: Shanghai Stock Exchange & Hang Seng Index PE Multiple of FY2024

Source: Bloomberg

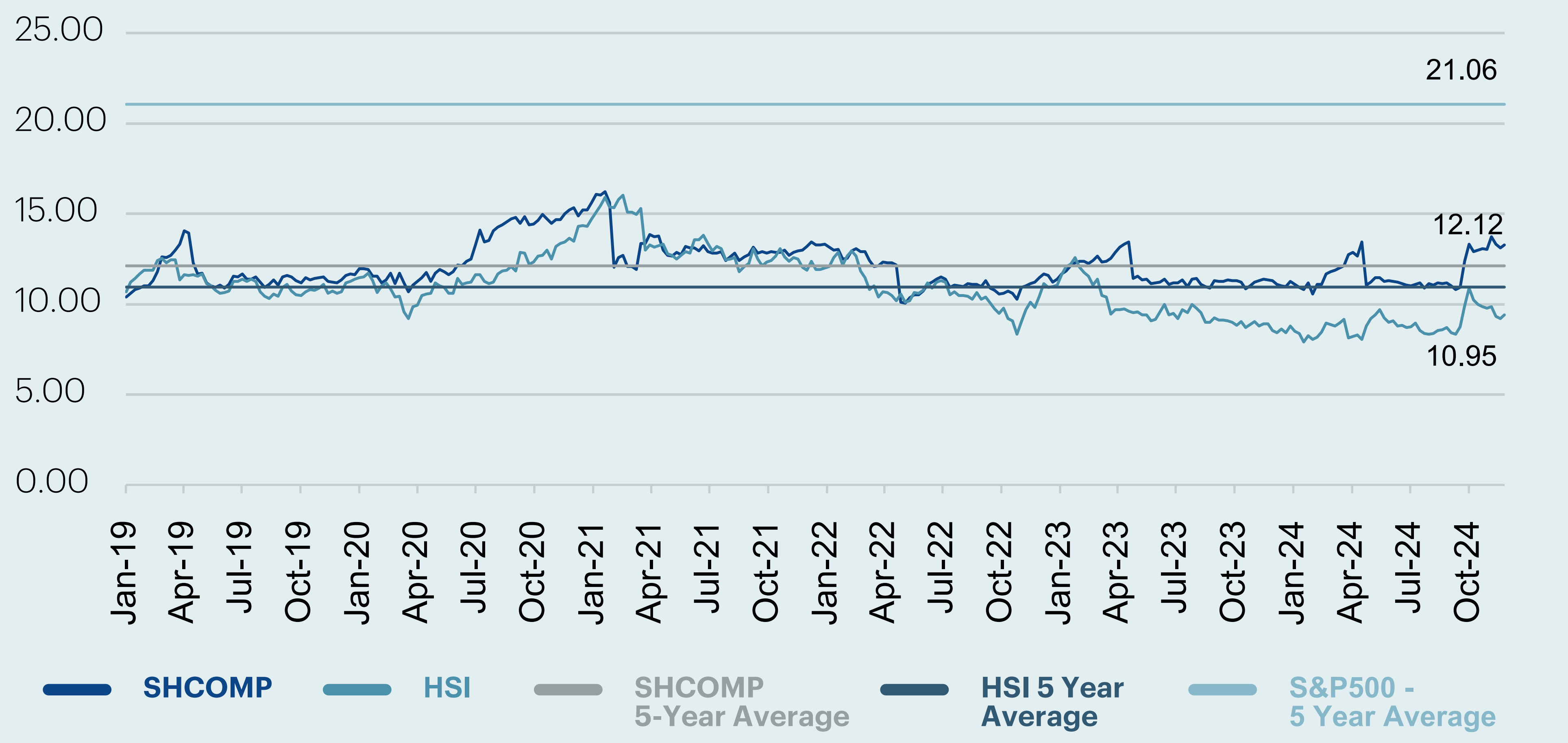


Figure 13: Fundamentals of Shanghai Composite Index

	2023	2024	2025	2026
EPS	237.15	249.47	275.46	306.21
% Change in EPS	-1.5%	5.2%	10.4%	11.2%
Dividend Yield	2.85%	3.03%	3.24%	3.6%
PE	13.21x	13.27x	12.02x	10.81x

Conclusion

Overall, we think that the economies of China and India will continue to drive global growth. Higher economic growth in these nations generally translates into higher corporate profitability. In the case of China, discounted market valuation, government stimulus, and increased liquidity due to lower cash reserve requirements should also act as a near-term catalyst for the market. India trades at a premium valuation, but the expected pick-up in economic growth during the second half of the 2025 financial year should boost earnings growth and market performance. We believe both markets present compelling investment opportunities to generate strong returns in 2025.

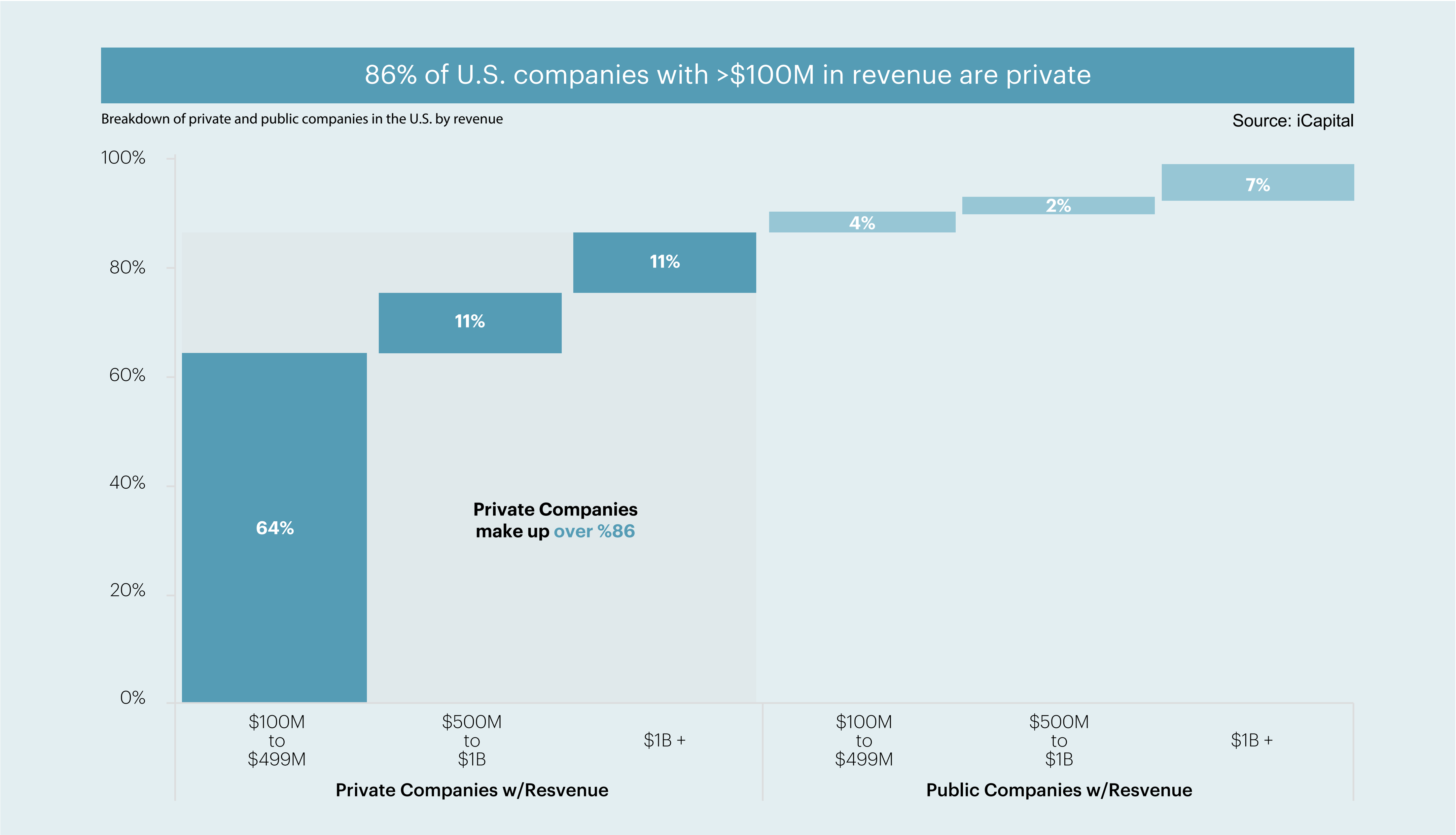
Developments in Investment Products & Solutions

Unlocking the Potential of Investing in Private Markets

Kishore Ranganathan – Executive Director, Investment Solutions

Risk and return are generally at opposite ends of the spectrum. If one expects the highest possible return, then one must be willing to risk the invested capital. A capital-guaranteed raffle ticket does not exist.

Maximising returns for a given level of risk or reducing risk for a given level of return has often been considered the holy grail of wealth management ever since Harry Markowitz, winner of the Nobel Prize in economics in 1990, brought about a paradigm shift in portfolio management.



While investors have become quite comfortable with investing in public markets, the world of private markets tends to be less understood. However, the investment universe for private assets is vast, deep, and much larger than public markets.

There are about 20,000 publicly listed companies worldwide generating more than USD 100 million in revenue. In contrast, the number of private companies generating the same amount of revenue is more than seven times higher. Therefore, statistically speaking, investors are more likely to find opportunities to achieve superior returns in private than in public markets.

This article aims to provide a basic understanding of private markets and how they can add value to an investor's portfolio. It also covers some high-level points about the risks of investing in private markets, how global macro trends impact investment returns, and how an investor can access private markets.

What constitutes private market investments?

Private market investments are investments in assets not publicly traded on common exchanges, such as private equity, private credit, venture capital, real estate, and infrastructure.

Unlike public markets, where securities can be bought and sold on exchanges openly, private markets involve transactions directly negotiated between parties, often with less regulatory oversight and greater flexibility.

The growth of assets under management (AUM) worldwide has been phenomenal since 2010 and is expected to continue growing significantly. According to a report by iCapital, AUM in private markets is set to grow at a compound annual rate of about 10% until at least 2029, offering potentially immense opportunities for investors.

Types of private market investments

Private equity: This involves buying stakes in companies that are not publicly traded or taking publicly traded companies private by buying out the shares of existing shareholders. Private equity firms typically acquire a significant stake in a company to improve its profitability through operational or strategic measures, eventually exiting the investment through a public offering or a sale at a profit.

The most popular type of private equity investments

- **Venture capital**: Funding early-stage companies with high growth potential. This investment type has gained immense popularity over the last few years given its multi-fold returns. However, it is associated with extremely high risks, requiring venture capitalists to become involved, who often actively guide the company's development.
- **Distressed/turnaround**: Investing in companies struggling financially to restructure and improve their performance.
- **Secondaries**: Buying existing stakes in private equity funds from other investors.
- **Buyouts**: The acquisition of a controlling stake in a company, often financed with substantial leverage or borrowed funds.

Private credit

Also known as private debt, private credit includes loans and advances provided to companies outside traditional banking channels. It can also take other forms, such as direct lending, mezzanine financing, and distressed debt.

Types of private credit:

- **Direct lending**: As the name suggests, this involves providing loans directly to companies at mutually negotiated and agreed upon terms.
- **Mezzanine financing**: A mix of debt and equity that gives the lender the right to convert debt into equity in case of default. Also known as subordinated financing, mezzanine financing is typically not secured by the company's assets, and it ranks below secured debt in repayment priority in case of default.
- **Special situations**: As the name suggests, this involves lending to unique or complex transactions that do not fit into traditional lending categories.
- **Asset-based lending**: Loans disbursed under this category are secured by the company's assets, such as inventory or receivables.

Real estate: Investments in residential, commercial, or industrial properties to generate stable income through rent and/or the potential appreciation in property values.

Infrastructure: Investments in critical public infrastructure such as transportation, utilities, and communication networks. These investments often provide long-term and stable returns because these assets are essential.

However, the question remains: How do these investments add value to the portfolio? The short answer is in various ways. Here is an overview of a few:

- Diversification is one of the benefits of private market investments. Private market investments are typically less correlated with public markets. Adding these investments to public portfolios often reduces portfolio volatility and enhances risk-adjusted returns.
- Illiquidity, or the lack of liquidity, is one of the characteristics of private market investments. The compensation for illiquidity comes in the form of a premium on the returns. This has led to historically higher returns than public markets over a longer time frame.
- Illiquidity, or assets that cannot be easily converted into cash, is predominantly due to the long-term focus of many managers in private markets, who adopt a buy-and-hold strategy. This helps align the long-term interests of both investors and management, leading to value creation. This long-term focus can lead to more stable and predictable returns.
- Private markets offer access to unique investment opportunities that are not available in public markets. This includes investing in innovative startups, niche sectors, and distressed assets with turnaround potential.

Going back to Markowitz and the efficient frontier, allocating private market investments into a traditional portfolio may offer comparable volatility with greater returns than a more conservative portfolio while potentially preserving value and serving as an effective volatility buffer in a more aggressive portfolio.

However, presenting an overly optimistic view of private markets without explaining the associated risks would be remiss. Investments always carry a risk, and private markets are not immune to this, so what are some of the major risks of investing in this asset class?

- Private market investments are traded less often, particularly during unfavourable market conditions, so the key risk of investing in private markets is illiquidity.
- Some private market investments are subject to lesser regulatory oversight and disclosure requirements than public investments, so some have a lower level of transparency.
- Some private market investments have a long investment horizon.

- This is particularly true in the case of private equity investments, where the commitment period tends to be longer, which can be particularly challenging for investors seeking liquidity.
- By nature, private market investments are complex and require more due diligence and expertise to manage them effectively.

After examining private assets, their advantages and limitations, and how some known macro trends affect them, let us focus on two basic structures through which they are offered to investors.

Whenever one sits down with a financial advisor to discuss investing in private assets, they will offer various investments to select from. Most of these investments follow one of the following two structures.

Private market structures: Drawdown structures

This structure is the traditional way of investing in private assets. Investors are presented with a concept or an underlying philosophy for the investment, along with a portfolio manager's track record and the manager's strength in identifying investment opportunities. The portfolio manager draws down some or all the investments committed to over a multi-year investment period and uses that to acquire assets for the portfolio. By the end of the fund's life, the portfolio manager will generally aim to sell the assets and distribute the proceeds to investors.

The investment opportunities available for drawdown structures are vast. While this competitive advantage is diminishing, it remains an advantage for drawdown structures — at least for now. One of the other advantages of drawdown structures is that the portfolio manager is not pressured to deploy the funds immediately. The portfolio manager can scout for new investment opportunities and call for capital once the ideal investment fit is identified.

However, investors must understand that these funds operate largely in the illiquid space. The fund's drawdown structure is designed to match the liquidity profile of the underlying investments. The yield in the case of credit investments and realisation from exits in the case of private equity generally provide liquidity. The standard time frame for investing in these structures is eight to 10 years.

Evergreen structures

These structures have no fixed end date and allow investors to make ongoing investments and redemptions — albeit with some restrictions. They are accessible to a wide range of investors and provide enhanced liquidity. Portfolio managers can easily implement them, and investors can get immediate exposure to various asset classes with a lower minimum amount of investment capital required.

The advantages of the evergreen structures include:

a) The structure reduces the J-curve effect[1], especially in private equity, where return profiles are back-ended.

b) The structure tends to minimise the blind pool risk. Given the continuous subscription and redemption option of evergreen funds, investors can buy into a fully invested portfolio, unlike the case of drawdown funds, where investors may not own any investment when they commit capital to the fund.

The evergreen structures have drawbacks and are not the panacea for all investors. Redemptions are usually limited to 5% of the fund's net asset value (NAV). They must often be given a 90-day notice period to the portfolio manager. And if all investors in a fund exercise their right to redeem simultaneously, then the redemptions might become pro-rated. This also means significant redemptions affect the fund's performance, and the remaining investors normally bear it. Finally, a mismatch between deal flows and cash availability in the fund leads to missed investment opportunities or a performance drag due to unused cash.

We believe both evergreen and drawdown structures can help investors achieve superior returns and diversify their portfolios. This is why, at FAB, we offer both structures within private assets to complement investors' portfolios.

In conclusion, private assets offer unique investment opportunities. They can add significant value to investment portfolios through diversification, higher returns, and access to unique assets. However, the key risks are illiquidity, a long investment horizon, the complex nature of these investments, and less transparency and regulation. Additionally, like all investments, returns from private assets are influenced by macroeconomic trends such as interest rate fluctuations, economic cycles, inflation, technological advancements, and geopolitical risks.

However, by understanding the nature of private markets and anticipating macro trends, investors can better navigate the complexities of investing in private markets. Staying informed and being willing to adapt is key to investing in this dynamic and ever-evolving landscape of private markets.

[1] J Curve: Definition and Uses in Economics and Private Equity

The GCC Asset Management Landscape

Musa Haddad – Head of Fund Management & Acting Head of Asset Management

The Gulf Cooperation Council (GCC) region, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE), has historically been defined by its prosperity rooted in abundant oil and gas reserves. However, in recent years, GCC countries have recognised the necessity of diversifying their economies and enhancing their financial sectors, particularly the asset management industry. As we look ahead, several key trends and factors will shape the evolution of this industry regionally and globally.

Growing asset management industry

Asset management in the GCC has made significant strides and continues to develop in line with the global industry. PwC projects that the GCC's total onshore assets under management (AUM) will reach USD 500 billion by the end of 2026 — up from USD 400 billion at the end of 2022 — a number that continued to grow in 2024. Local institutional investors and sovereign wealth funds are playing an important role in the evolution of the GCC's asset management industry. As the industry evolves, its investment opportunities are attracting a growing and more astute base of institutional and retail investors looking to put their money to work away from traditional bank investment offerings.

Historically, a handful of firms have dominated the GCC asset management landscape. However, in recent years, the region's growing wealth has drawn increasing interest from local and international asset managers looking to tap into this lucrative market. In response, regulators are taking a more receptive role and helping to ease access to regional markets. Regulators, such as the Securities and Commodities Authority (SCA) in the UAE and the Capital Market Authority (CMA) in Saudi Arabia, are creating more conducive conditions for local and foreign asset managers as they compete to attract these entities into their respective markets.

The UAE End of Service Benefits initiative

The UAE's Ministry of Human Resources and Emiratisation (MoHRE) and the SCA began implementing the new alternative scheme for end of service benefits for employees working in free zones and the public and private sectors.

The scheme was launched under UAE Cabinet Resolution No. (96) of 2023 and Ministerial Resolution No. 668 of 2023. This voluntary scheme invests employees' end of service benefits in established investment funds with strong track records to provide investment returns to employees on their end of service benefits.

Introducing end of service benefits programmes provides many opportunities to licensed asset managers in the UAE and can significantly influence the asset management landscape in the following ways:

1. **Boost in capital flows**: The sudden influx of capital from end of service benefits will lead to a surge in the funds available for investment. Employees will look for opportunities to maximise and safeguard their returns by directing these funds towards savings, investments, and retirement accounts. Asset management firms can capitalise on this influx by creating tailored investment solutions for these beneficiaries, resulting in larger pools of AUM.
2. **Portfolio diversification**: With an increase in capital, asset managers can explore various asset classes across the globe. This capital growth can lead to more diversified portfolios as managers allocate resources across different industries and regions, potentially reducing risk and enhancing returns. This diversification is appealing to investors who prioritise stability and long-term growth.
3. **Broadening client base**: End of service benefits inject capital into and expand the client base of asset management firms, which could lead to corporations partnering with these firms to manage retirement packages effectively and opening up opportunities to serve corporate and individual clients. This expanded clientele would further diversify income sources and solidify the market presence of asset managers.
4. **Innovation in financial products**: The competition to attract funds will drive innovation within asset management firms. They will have to develop new investment products and services to appeal to end of service benefits recipients. These might include personalised retirement planning services and bespoke investment portfolios catering to retirees' unique needs or those entering a new phase of their careers.
5. **Promoting financial literacy**: The increase in end of service benefits highlights the need for increased financial literacy. Asset management companies can play a crucial role by offering education and resources and helping individuals make informed investment decisions. By fostering a more financially literate client base, firms ensure more engaged and savvy investors, which can lead to more stable investment behaviour.

The UAE End of Service Benefits programmes have the potential to transform the asset management landscape by increasing capital inflows, encouraging innovation, and expanding client services. By adapting to these shifts, asset management firms can enhance their growth, generate greater profits, and contribute to a more robust, diversified, and sustainable financial ecosystem.

First Abu Dhabi Bank (FAB), the UAE's largest bank and one of the world's largest and safest financial institutions, has received initial approval to make the FAB End of Service Benefits Funds available to UAE-based companies. This will allow employees to grow their end of service benefits through the new government Alternative EOSB Savings Scheme.

The rise of financial centres in the UAE

Strong growth and expansion of the financial centres in the UAE

Various projects are underway to boost the development of financial centres. For example, the Abu Dhabi Global Market (ADGM) cut fees for commercial licences by 50% from the start of 2025. The ADGM also plans to expand to Al Reem Island, offering relocation support for businesses.

The Dubai International Financial Centre (DIFC) has added nearly 1.5 million m^2 of commercial space over the past three years. This expansion reflects ambitious growth objectives and a commitment to offering more comprehensive financial services. The DIFC excels in financial advisory, banking, and wealth management, while the ADGM is positioning itself as a hub for virtual asset service providers and sustainable finance.

AUM in the DIFC rose by 58% from USD 444 billion to USD 700 billion, while the ADGM reported a 215% increase. Leading global asset managers have also set up their bases in the UAE and are on an expansion spree, including BlackRock (USD 11.5 trillion in AUM), PGIM (USD 1.33

trillion in AUM), and Nuveen (USD 1.2 trillion in AUM).

The SCA reported a USD 10 billion surge in AUM by portfolio management companies and investment funds in the UAE. This boost reflects the SCA's ongoing efforts to enhance the asset management sector, strengthen its regulatory framework to align with global best practices, and support the UAE's vision to become a leading hub for asset management. The sector is projected to expand, with the expected number of local investment funds reaching 58 as the SCA has received 25 new applications.

The positive developments in the sector are attributed to the SCA's efforts to strengthen the legislative environment. In January last year, the SCA implemented new investment fund regulations to promote market stability. The SCA is also updating its rulebook on financial activities related to investment fund management, aiming to attract global asset management firms and enhance the UAE's financial landscape.

Global integration and competition

Local factors and the influence of global economic dynamics are shaping the trajectory of the GCC's asset management industry. As seen in recent years, geopolitical tensions and fluctuations in oil prices affect economic stability and investor sentiment. As a result, the region continues its efforts towards economic diversification, which aligns with national visions such as Saudi Arabia's Vision 2030 and the UAE's Vision 2030. These initiatives aim to reduce dependence on oil revenues, resulting in increased investment in sectors such as technology, renewable energy, tourism, and healthcare. Promoting these sectors offers unprecedented opportunities for asset managers to develop innovative products and services tailored to market demands.

Regulatory enhancements are also poised to elevate the standards and attractiveness of the GCC as an investment hub. Ongoing reforms and the GCC's strategic location are expected to drive the continued influx of foreign direct investment. The introduction of more sophisticated investment products, improved reporting standards, and enhanced transparency is also set to boost investor confidence and global integration. Therefore, asset management firms must navigate a complex landscape of regulatory requirements, competition from established global players, and a developing investment climate.

Technological advancements

Technology is expected to be a significant factor in shaping the GCC asset management industry. The onset of fintech innovations, including digital platforms, robo-advisors, artificial intelligence (AI), and big data, is revolutionising the investment landscape. Through technology, the number of individual investors is increasing and gaining greater access to more investment options, signalling a move to a more democratised investment landscape. The challenge traditional investment advisory model practitioners face is adapting and incorporating these new technologies into their business strategy. We expect GCC asset management firms to adopt these technological advances to improve efficiency, lower costs, and enhance the customer experience.

Evolving investor preferences

As millennials and members of Generation Z inherit wealth, the asset management industry must adapt to changing investor preferences, such as prioritising ethical investing, sustainability, and corporate social responsibility. By 2025, the demand for environmental, social, and governance (ESG) investments in the GCC is expected to surge, emphasising the importance of integrating responsible investment strategies into asset management practices.

In addition, enhancing financial literacy and awareness about investment products will empower younger investors. Therefore, asset managers must update their offerings to ensure they align with the values of the new generation of investors seeking both financial returns and positive societal impact.

Conclusion

In summary, the GCC asset management industry is on the cusp of transformation. Factors such as economic diversification, regulatory reforms, technological innovations, shifting investor preferences, and global integration will all play pivotal roles in this evolution. Building on these trends, the GCC has the potential to become a formidable player in the global asset management arena.

Understanding and adapting to these elements will be crucial for regional stakeholders to be successful in the region's evolving market. Finding the right balance between local knowledge and global best practices will determine the future of the GCC's asset management industry and its place in the international financial landscape.

Shaping tomorrow: How the UAE's end of service benefits scheme is revolutionising the economy and capital markets

Musa Haddad – Head of Fund Management & Acting Head of Asset Management
Adrin Crasta – VP, Asset Management Risk & Oversight

The UAE's new end of service benefits scheme: a game changer for employees, employers and the capital markets

In 2023, the UAE introduced a new Alternative End of Service Benefits (EOSB) Scheme, also known as the Savings Scheme, under the Ministry of Human Resources and Emiratisation (MOHRE).

This initiative represents a significant shift in how expatriates can manage and grow their end-of-service gratuity. By enabling employees to voluntarily invest their gratuity into regulated funds, the scheme not only opens new opportunities for financial growth, but also modernises the country's approach to employee benefits.

This article delves into the details of the UAE's new scheme, the global evolution of end-of-service benefit programmes and employer contributions models, and explores the significant implications of this initiative for the UAE's capital markets.

What is the new UAE EOSB scheme?

Traditionally, expatriates received a lump sum gratuity upon leaving a job, based on their length of service and final salary. This gratuity was often a passive form of investment with a one-time payment.

The UAE's new EOSB scheme, however, gives expatriates an opportunity to invest their gratuity payments in low-risk, medium-risk and high-risk investment funds, available in conventional and Sharia-compliant options that are managed by UAE licensed Asset Managers.

Under the new scheme, gratuity funds are channelled into regulated mutual funds, allowing employees to grow their savings over time. This elevates EOSB into a powerful retirement planning tool. The initiative marks the UAE's transition from a simple gratuity-based system to a more structured, growth-oriented approach, aligning with global best practices and enhancing financial security for employees.

Key benefits of the EOSB scheme include:

Employers

Streamlined operations
Reduced administrative management and costs, enabling more focus on growth and development.

Better recruitment
Enhances employee compensation and helps attract and retain talent.

Professional management
Meticulous management of investment funds, fully compliant with Securities and Commodities Authority (SCA) and MOHRE regulations.

Employees

Greater employee welfare
Improves financial wellbeing and enhances job satisfaction.

Empowerment
Offers educational resources and strategic investment options for financial security. Employees can also make voluntary contributions up to 25% of theirannual salary as a lump sum contribution.

Diverse options
Provides various investment options, aligned with individual values and riskappetites.

Employers who opt into the new scheme must make monthly contributions of:

- 5.83% of the employee's basic salary for those with less than five years of service.
- 8.33% for employees with over five years of service.

Comparing the UAE's Gratuity Scheme and the New End-of-Service Benefits Framework

The introduction of the new EOSB scheme marks a transformative shift in the UAE's labour landscape, offering significant enhancements compared to the traditional Gratuity Scheme. Below is a detailed comparison highlighting key aspects of both systems:

1. Payment structure:

Existing gratuity scheme: The scheme provides a lump-sum payment at the end of service. The amount is calculated based on an employee's length of service and their final salary, with no investment options. Employees receive a fixed amount without the option for any growth or enhancement.

New EOSB scheme: In contrast, the new scheme gives employees the flexibility to invest gratuity in a variety of regulated low, medium and high-risk funds, available in both conventional and Sharia-compliant options. This introduces a proactive approach to retirement savings, enabling employees to grow their benefits over time.

2. Risk and return:

Existing gratuity scheme: The current gratuity arrangement carries no investment risk for the employee. The gratuity amount remains static and is solely dependent on service duration and salary, providing a sense of security but limited growth potential.

New EOSB scheme: With the new EOSB Scheme, employees are given an opportunity for investment growth, although this comes with inherent market risks. The potential for higher returns is an essential feature of this scheme, appealing to employees willing to engage with the market for improved benefits.

3. Flexibility:

Existing gratuity scheme: Under the current gratuity scheme, employees have no control over their gratuity funds until they leave the organisation, rendering the scheme inflexible and static.

New EOSB scheme: The EOSB scheme offers substantial flexibility, allowing employees to select investment options that best match their risk tolerance and financial goals. This autonomy in fund management is a decisive advantage for those looking to enhance their retirement planning.

4. Security:

Existing gratuity scheme: One significant concern with the existing gratuity scheme is that the funds are held by employers. This arrangement poses a risk in instances where employers may face financial difficulties, potentially jeopardising employees' gratuity funds.

New EOSB scheme: In stark contrast, the new EOSB Scheme is designed to have funds managed by regulated investment firms. This external management ensures greater transparency, stronger regulatory oversight and protection against employer-related risks.

5. Financial impact on employees:

Existing gratuity scheme: The current scheme culminates in a static payout, which makes it vulnerable to inflation and economic fluctuations—often failing to provide sufficient long-term benefits for employees.

New EOSB scheme: The new EOSB Scheme not only offers the chance for price-related growth through investments, but also significantly enhances employees' long-term retirement savings, making it an attractive option for forward-thinking individuals.

6. Impact on employers:

Existing gratuity scheme: The employers under the existing scheme bear the full liability for gratuity payments, which can create financial strain, especially in economic downturns or company-specific financial challenges.

New EOSB scheme: The new EOSB scheme effectively reduces financial liability for employers through external management of the funds. This shift allows businesses to mitigate risks associated with managing gratuity payouts, offering a more sustainable approach to employee benefits.

With its emphasis on investment opportunities, flexibility and enhanced security, the new EOSB scheme well-aligned with modern financial needs. Ultimately, this forward-thinking approach delivers value for both employees and employers, paving the way for a sustainable and mutually beneficial financial framework.

The global evolution of end-of-service benefit schemes

The concept of end-of-service benefits is a cornerstone of employee welfare, yet approaches vary significantly across regions around the world, due to differing cultural, economic and policy factors. Below is a comprehensive overview of how these schemes have evolved globally:

United States

In the USA, early forms of retirement benefits primarily consisted of defined benefit pension plans. Under these arrangements, employers guaranteed a specific payout to employees upon retirement, typically determined by their years of service and final salary levels. The establishment of Social Security in 1935 bolstered this framework by introducing a public safety net for retirees.

However, by the 1980s, there was a significant shift away from defined benefit plans towards contribution schemes, most notably the 401(k) plans. Through these plans, both employees and employers contribute, but crucially, the investment risk rests primarily with the employee. This transformation marks a major evolution in the structure of end-of-service benefits, shifting the responsibility of retirement savings largely onto individuals.

Europe

Across Europe, the evolution of end-of-service benefits has been shaped by robust public pension systems established throughout the 20th century. Countries like Germany and the UK developed pension schemes funded by payroll taxes, shared between employers and employees.

However, as demographics shifted and populations aged towards the late 20th century, many European nations undertook reforms to incorporate private pensions and defined contribution plans. These changes aimed to alleviate the financial strain on governments, while providing additional security for retirees.

This gradual evolution underscores the balancing act between public responsibility and the growing need for private pension solutions.

Gulf Cooperation Council (GCC)

In GCC countries, the traditional model of end-of-service benefits has centred around lump-sum gratuity payments, particularly for expatriate workers. Gratuity amounts are calculated based on the employee's salary and years of service, with payouts occurring upon the employee's departure from the company.

While state pension schemes provide retirement benefits for GCC nationals, the vast expatriate workforce has long-relied on gratuity payments as their primary form of end-of-service compensation. Until recently, theses gratuities were considered passive savings, offering no avenues for investment or growth, leaving expatriate employees with limited opportunities to enhance their financial security post-employment.

United Arab Emirates

Historically, the UAE adopted a gratuity-based system like its GCC neighbours. However, recognising the evolving needs of a modern workforce and demand for a more dynamic and growth-oriented retirement solution, the UAE launched its new EOSB scheme in 2023. This innovative framework integrates investment opportunities into the end-of-service benefits system, marking a notable departure from traditional practices. By aligning with global retirement planning trends, the scheme reflects a forward-thinking approach, reinforcing the UAE's dedication to advancing employee financial security and wellbeing.

The evolution of end-of-service benefits across the globe reveals a complex interplay of economic challenges and societal shifts. As countries embrace innovative models that incorporate both public and private solutions, a clearer alignment towards modern financial strategies emerges. The transition from traditional gratuity schemes to diversified investment options demonstrates a broader trend towards securing a prosperous retirement for future generations, ensuring that end-of-service benefits can adequately meet the demands of an evolving workforce.

Future trends in end-of-service benefit schemes

The end-of-service benefits landscape is undergoing significant transformations, driven by a variety of factors that include shifting demographics, economic challenges and the evolving expectations of today's workforces. These dynamics are reshaping how gratuity schemes are designed and implemented across various regions:

- **Integration of Pension and Gratuity Systems (GCC)**

The new EOSB scheme implemented in the UAE serves as a potential blueprint for other GCC countries aiming to modernise their gratuity systems. As these countries recognise the need for reform, there may be a movement towards mandating such schemes or developing hybrid systems that blend gratuity and pension benefits for expatriates. This could lead to a more comprehensive retirement planning framework, enhancing financial security for a large expatriate workforce who have traditionally relied on gratuity payouts.

- **Increasing Employee Responsibility**

Globally, there is a greater responsibility on employees to manage their own retirement savings. In regions like the USA and Europe, employers continue to offer matching contributions, however there is an increasing expectation for employees to take a proactive role in saving for retirement. This trend emphasises the need for financial literacy and awareness among employees, enabling them to make informed decisions regarding their future financial wellbeing.

- **Digitalization and FinTech**

As pension and gratuity systems evolve, the integration of technology has become essential for enhancing management and transparency. Many countries are increasingly leveraging digital platforms and fintech solutions to streamline the administration of retirement contributions.

Applications that allow employees to manage their savings easily and access investment options are becoming more common. This shift not only empowers employees with greater control over their financial futures, but also improves the efficiency and accountability of end-of-service benefit systems.

Evolution Snapshot

- **Europe and USA**: The transitioned from defined benefit pension systems in the early 20th century to defined contribution and hybrid systems by the late 20th century illustrates a significant evolution. Currently, both regions emphasize shared contributions from employer and employee through structured pension plans and retirement savings schemes. This reflects a move towards sustainable retirement solutions, shaped by economic constraints and demographic pressures.
- **GCC and UAE**: Traditionally, GCC countries relied on gratuity-based systems for expatriates. However, the introduction of the UAE's new EoSB scheme signifies a major shift towards more structured and flexible approach to retirement planning. This scheme introduces investment opportunities, paving the way for a more secure financial future for expatriates that aligns with global trends.
- **Asia**: Countries like India and China have moved towards more structured employee provident fund frameworks. These systems integrating employer and employee contributions but still retaining gratuity elements. This evolution highlights a balanced approach to retirement savings, aiming to provide better financial security for workers.

Comparison of Employer Contributions to End of Service Schemes

The structure of employer contributions toward end-of-service or retirement benefits significantly varies across different regions, reflecting diverse economic landscapes and cultural attitudes towards employee welfare. How employers contribute to these schemes in the USA, Europe, and the Gulf Cooperation Council (GCC) countries, including specific insights into the UAE's evolving landscape.

- **USA**: Employers typically contribute to 401(k) plans as a match to employee contributions. The contribution rate can vary, but a common structure is a 50% match up to a certain percentage of the employee's salary (e.g., 6%). In addition, Social Security payroll taxes are split between the employer and employee.
- **Europe**: In countries with strong public pension systems, such as Germany and France, employers contribute to state pension schemes through payroll taxes. Private pensions often see employers contributing between 5-10% of an employee's salary, depending on the company and industry.
- **GCC**: For expatriates, employers in the GCC generally contribute only via end-of-service gratuities. These are calculated based on a formula that typically grants 21 days of salary for each year of service for the first five years and 30 days of salary for each subsequent year.
- **UAE**: With the introduction of the new scheme, employers in the UAE will continue to calculate gratuity payments based on the traditional formula. However, the option to invest these gratuities offers employees a new pathway to potentially increase their retirement savings. Employers may also see reduced financial liabilities, as the funds will be managed within investment funds.

Reforms in the GCC End-of-Service-Benefits Scheme

The landscape is shifting in several GCC countries, with reforms to end-of-service systems aiming to improve social protection for expatriates. For instance:

- Oman introduced legislation to gradually include expatriates in national social insurance benefits through a national provident fund.
- Bahrain implemented a similar provident fund in 2023.
- Saudi Arabia and Kuwait are exploring various reform options to evolve their end-of-service benefits structure.

These reforms follow international labour standards, aiming at enhancing social protection for expatriates and address the financial burden on individual employers. The reforms also aim to mitigate liquidity risks, especially in times of economic downturns like those seen during the COVID-19 pandemic.

In summary, the new UAE pension scheme and similar GCC reforms represent significant steps towards providing more reliable, predictable, and collectively managed benefits for workers.

Key UAE milestones and efforts include:

The UAE has made significant strides in refining its retirement benefits framework.

- In 2020, the Dubai International Financial Centre (DIFC) introduced a defined contribution pension plan (DEWS) for non-national workers.
- In 2022, the Dubai Government launched a similar scheme for its employees, and National Bonds introduced the Golden Pension Plan for large enterprises.
- In 2023, UAE introduced a job loss insurance scheme known as the Involuntary Loss of Employment (ILOE) scheme, a mandatory job loss insurance program designed to offer financial support to employees facing unemployment.

These initiatives illustrate the UAE's transition from a model centred on employer-financed benefits to one that emphasises investment-driven funds managed by professional asset managers under the supervision of regulatory bodies such as the MOHRE and SCA.

The evolving landscape of employer contributions to end-of-service schemes reflects a broader shift towards modernised, reliable, and collectively managed retirement benefits. The UAE's new EOSB scheme and similar reforms across the GCC signify substantial progress in addressing the needs of a diverse workforce while aligning with global best practices in retirement planning.

The Impact of the UAE's new EOSB scheme on capital markets

The launch of the new EOSB scheme in the UAE is set to drive significant changes in the country's capital markets, fostering liquidity, innovation and comprehensive market expansion:

1. **Increased Capital Inflows**: The scheme allows expatriates to invest their gratuity into regulated investment funds. This is likely to result in a steady influx of capital into the UAE's financial markets, enhancing liquidity and market depth across various asset classes including equities, bonds and mutual funds. The injection of funds will invigorate the capital markets,

potentially leading to the appreciation of asset values as more capital seeks investment avenues.

2. **Growing Demand for Asset Management Services**: As employees seek to invest their gratuity payments, there will be a growing demand for sophisticated asset management services. This could lead to the establishment of new funds and innovative investment products tailored to expatriates' preferences and risk appetites., creating opportunities for both local and international asset managers. The anticipated surge in activity within the UAE's asset management industry will not only bolster financial services but also catalyse job creation, enhancing the overall economic landscape.

3. **Enhanced Market Liquidity**: The influx of end-of-service funds into the financial markets will contribute to greater liquidity, particularly in the equity and bond markets. An uptick in liquidity often translates into improved market efficiency and reduced transaction costs, making the UAE's capital markets more attractive to both domestic and international participants. As liquidity rises, the likelihood of more stable market conditions improves, fostering investor confidence.

4. **Promotion of Long-Term Savings**: The scheme encourages long-term savings by allowing employees to invest their gratuity over time. Sustained capital is vital for supporting long-term investment sectors such as real estate, infrastructure and corporate financing, which rely on stable, long-duration investments. Furthermore, expatriates who invest in UAE markets will gain a vested interest in the economic expansion of the country, contributing to a more robust financial ecosystem.

5. **Strengthening of the UAE as a Financial Hub**: By modernising its end-of-service benefits system, the UAE reaffirms its status as a global financial centre. The EOSB scheme attracts both domestic capital and foreign investors, who are drawn to the UAE's regulated and diversified financial ecosystem. This alignment supports the UAE's broader economic diversification goals, reducing dependency on oil revenues while nurturing a dynamic financial sector.

Conclusion

The UAE's new EOSB scheme demonstrates the nation's commitment to economic modernisation and workforce wellbeing. By integrating investment opportunities into end-of-service benefits, the UAE is not only boosting its capital markets but also introducing a more sustainable financial planning model for expatriates. Drawing inspiration from global best practices, the scheme reflects a progressive shift towards sophisticated, long-term financial strategies tailored to local needs.

A pivotal player in the implementation of the scheme is **First Abu Dhabi Bank (FAB)**, the UAE's largest bank. As one of the licensed fund managers. FAB offers a range of investment options designed to meet the diverse needs of expatriates.

Important Notice: This communication has been prepared by individual personnel of First Abu Dhabi Bank PJSC or its affiliates (collectively, "FAB") and, accordingly, it may not represent the views of FAB. FAB is licensed and regulated by the Central Bank of the United Arab Emirates and its registered office address is P.O. Box 6316, 1 – Al Qurm, Abu Dhabi, the United Arab Emirates. This communication is directed at persons (i) who have been or can be classified by FAB as eligible counterparties, professional clients or sophisticated investors, (ii) who have experience in matters relating to investments and (iii) other persons to whom it may otherwise lawfully be communicated. No other person should review the contents or access the products or transactions discussed in this communication. All material contained herein, including any proposed terms and conditions, is indicative and for discussion purposes only, is subject to change without notice, is strictly confidential, may not be reproduced and is intended for your consideration only. It does not include a number of terms and conditions that will be included in any actual transaction and final terms and conditions are subject to further discussion and negotiation nor does it purport to identify all applicable risks. This communication is not a commitment to deal in any product, offer financing or enter into any transaction described herein. FAB is not acting as your agent, fiduciary or investment adviser and is not managing your account. The provision of information in this communication is not based on your individual circumstances and must not be relied upon as an assessment of suitability for you of a particular product or transaction. It does not constitute investment advice and FAB makes no recommendation as to the suitability of any of the products or transactions mentioned. Even if FAB possesses information as to your objectives in relation to any transaction, series of transactions or trading strategy, this is not sufficient for, and does not constitute, any assessment of suitability for you of any transaction, series of transactions or trading strategy. Save in those jurisdictions where it is not permissible to make such a statement, FAB hereby informs you that this communication should not be considered as a solicitation or offer to sell or purchase any securities, deal in any product or enter into any transaction. You should make any trading or investment decisions in reliance on your own analysis and judgment and/or that of your independent advisors and not in reliance on FAB and any decision whether or not to adopt any strategy or engage in any transaction will not be FAB's responsibility. FAB does not provide investment, accounting, tax, financial, legal, regulatory or other advice; such matters as well as the suitability of a potential transaction or product or investment should be discussed with your independent advisors. Prior to dealing in any product or entering into any transaction, you and the senior management in your organization should determine, without reliance on FAB, (i) the economic risks or merits, as well as the investment, accounting, tax, financial, legal and regulatory characteristics and consequences of dealing with any product or entering into the transaction (ii) that you are able to assume these risks, (iii) that such product or transaction is appropriate for a person with your experience, investment goals, financial resources or any other relevant circumstance or consideration. Where you are acting as an adviser or agent, you should evaluate this communication in light of the circumstances applicable to your principal and the scope of your authority. Any prices used herein, unless otherwise specified, are indicative. Although all information has been obtained from, and is based upon sources believed to be reliable, it may be incomplete or condensed, it has not been verified by FAB and its accuracy cannot be guaranteed. FAB makes no representation or warranty, expressed or implied, as to the accuracy of the information, the reasonableness of any assumptions used in calculating any illustrative performance information or the accuracy (mathematical or otherwise) or validity of such information. Any opinions attributed to FAB constitute FAB's judgment as of the date of the relevant material and are subject to change without notice. Provision of information may cease at any time without reason or notice being given. Commissions and other costs relating to any dealing in any products or entering into any transactions referred to in this communication may not have been taken into consideration. Any scenario analysis or information generated from a model is for illustrative purposes only. Where the communication contains "forward-looking" information, such information may include, but is not limited to, projections, forecasts or estimates of cashflows, yields or return, scenario analyses and proposed or expected portfolio composition. Any forward-looking information is based upon certain assumptions about future events or conditions and is intended only to illustrate hypothetical results under those assumptions (not all of which are specified herein or can be ascertained at this time). It does not represent actual termination or unwind prices that may be available to you or the actual performance of any products and neither does it present all possible outcomes or describe all factors that may affect the value of any applicable investment or product. Actual events or conditions are unlikely to be consistent with, and may differ significantly from, those assumed. FAB shall not be under an obligation to update any information contained in this communication. Illustrative performance results may be based on mathematical models that calculate those results by using inputs that are based on assumptions about a variety of future conditions and events and not all relevant events or conditions may have been considered in developing such assumptions. Accordingly, actual results may vary and the variations may be substantial. The products or transactions identified in any of the illustrative calculations presented herein may therefore not perform as described and actual performance may differ, and may differ substantially, from those illustrated in this communication. When evaluating any forward looking information you should understand the assumptions used and, together with your independent advisors, consider whether they are appropriate for your purposes. You should also note that the models used in any analysis may be proprietary, making the results difficult or impossible for any third party to reproduce. This communication is not intended to predict any future events. Past performance is not indicative of future performance. FAB accepts no responsibility and makes no representation to you or to any third parties for, and has not independently verified, the quality, accuracy, timeliness, continued availability or completeness of any data or calculations contained and/or referred to in this communication and FAB shall not be liable for any special, direct, indirect, incidental or consequential loss or damage which may be sustained because of the use of the information contained and/or referred to in this communication or otherwise arising in connection with the information contained and/or referred to in this communication, provided that this exclusion of liability shall not exclude or limit any liability under any law or regulation applicable to FAB that may not be excluded or restricted. The transactions and any products described herein may be subject to fluctuations of their mark-to-market price or value and such fluctuations may, depending on the type of product or security and the financial environment, be substantial. Where a product or transaction provides for payments linked to or derived from prices or yields of, without limitation, one or more securities, other instruments, indices, rates, assets or foreign currencies, such provisions may result in negative fluctuations in the value of and amounts payable with respect to such product prior to or at redemption. You should consider the implications of such fluctuations with your independent advisers. The products or transactions referred to in this communication may be subject to the risk of loss of some or all of your investment, for instance (and the examples set out below are not exhaustive), as a result of fluctuations in price or value of the product or transaction or a lack of liquidity in the market or the risk that your counterparty or any guarantor fails to perform its obligations or, if this the product or transaction is linked to the credit of one or more entities, any change to the creditworthiness of the credit of any of those entities. FAB (whether through the individual sales and/trading personnel involved in the preparation or issuance of this communication or otherwise) may from time to time have long or short principal positions and/or actively trade, for its own account and those of its customers, by making markets to its clients, in products identical to or economically related to the products or transactions referred to in this communication. FAB may also undertake hedging transactions related to the initiation or termination of a product or transaction, that may adversely affect the market price, rate, index or other market factor(s) underlying the product or transaction and consequently its value. FAB may have an investment banking or other commercial relationship with and access to information from the issuer(s) of securities, products, or other interests underlying a product or transaction. FAB may also have potential conflicts of interest due to the present or future relationships between FAB and any asset underlying the product or transaction, any collateral manager, any reference obligations or any reference entity. Any decision to purchase any product or enter into any transaction referred to in this communication should be based upon the information contained in any associated offering document if one is available (including any risk factors or investment considerations mentioned therein) and/or the terms of any agreement. Any securities which are the subject of this communication have not been and will not be registered under the United States Securities Act of 1933 as amended (the Securities Act) or any United States securities law, and may not be offered or sold within the United States or to, or for the account or benefit of, any US person, except pursuant to an exemption from, or in a product or transaction, not subject to, the registration requirements of the Securities Act. This communication is not intended for distribution to, or to be used by, any person or entity in any jurisdiction or country which distribution or use would be contrary to law or regulation. FAB may process your personal data to provide you with information or promotional and advertising communications on products, services, other events and campaigns.

If you wish not to receive email from the Market Insights team at FAB, please click here to send us your request to unsubscribe, and you shall no longer receive such information. You can also let us know by contacting your usual FAB representative should you wish to no longer receive any such further information. You may be entitled according to the applicable laws to exercise your rights to access, to rectification, to erasure and to portability of your personal data, to restrict the use of and to object to the processing of your personal data. You may exercise any such aforesaid rights by sending your **request to FAB at the following address: privacy@bankfab.com**

بنك أبوظبي الأول

FAB

First Abu Dhabi Bank

Contact us: PB@Bankfab.com