Fixed Income Commentary

ASSET MANAGEMENT

November 13, 2025

Who Needs Economic Data When AI Headlines Do the Heavy Lifting?

Global markets shrugged off shutdown fears – perhaps a bit too busy riding the artificial intelligence (AI) wave. Optimism around AI spending and hopes of further rate cuts helped sustain broad-based risk-on sentiment across asset classes. This rally persisted despite mixed signals from the real economy, including fresh layoff announcements from major US corporates and limited macro data releases amidst the government shutdown. Global equities posted solid gains for the month largely driven by AI related stocks. However, any resurgence in inflation, stronger labor data, or hawkish signals from the Fed could quickly test this optimism.

"No" Numbers Behind the Narrative

Apparently, the only numbers that matter these days are AI capex figures and the guidance from companies riding the AI wave – everything else seems almost optional. With a sparse economic data calendar, markets have leaned heavily on the AI narrative to anchor risk sentiment through October.

September's CPI print offered a welcome dose of stability. Headline CPI rose by 0.31% MoM (+3.0% YoY), while core CPI moderated to 0.23% MoM (+3.0% YoY), both softer than expected. Core goods inflation remained benign, and the pace of service inflation also slowed. While there are early signs of tariff-related pressures, they have yet to show up meaningfully in the data. Retailers and producers appear reluctant to pass on higher costs, likely due to constrained consumer spending, as seen in Q3 reporting's. This has helped keep inflation expectations anchored for now.

The newly ended government shutdown, the longest in US history, impaired the Fed's ability to assess evolving employment dynamics ahead of the December meeting. Meanwhile, recent trade agreements with China and Korea have slightly reduced the trade-weighted tariff burden. These developments may help moderate cost-push inflation pressures in early 2026. Overall, the Fed's next move will depend on labor market data and inflation expectations, both of which remain finely balanced.

Central Bank Watch

The FOMC delivered a second consecutive 25bps rate cut, lowering the target range to 3.75–4.00%, and announced that Quantitative Tightening will conclude on December 1. As in September, the move was framed as risk-management, with the statement highlighting rising downside risks to employment. However, Chair Powell struck a notably hawkish tone, calling a December cut "far from a foregone conclusion," which prompted markets to scale back easing expectations. The committee remains divided, with some members pointing to resilient consumer spending and AI-driven capex as reasons to pause further accommodation.

The Bank of Japan, meanwhile, kept its policy rate unchanged at 0.50% as expected, while reiterating its willingness to raise borrowing costs if the economic outlook evolves as projected. Markets remain split on the timing of the next move but are broadly pricing in ~50bps of cumulative hikes by end-2026. Two board members dissented in favor of an immediate increase to 0.75%, while the majority opted to wait—reflecting a cautious but increasingly confident policy stance.

#1 MENA Asset Manager investing in Asian G3 bonds for 2025 by The Asset Magazine

Quote of the Month

"Markets may be driven by numbers, but they move on narratives."

— Robert Shiller

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US Treasury yields declined 3–8bps across the curve in October, with overall volatility remaining muted. The rates market entered the FOMC meeting positioned dovishly, pricing in 25bps cuts in both October and December. Powell's hawkish remarks prompted a partial unwind of those expectations, bringing December cut odds down to ~50% from a fully priced cut earlier. Markets are now pricing roughly 3.3 cuts (~84bps) through end-2026, implying an expected Fed Funds rate near 3%. The 5-year yield fell 5bps to 3.69%, while the 10-year and 30-year declined 7bps and 8bps to 4.08% and 4.65%, respectively.

Risk Assets on the Move

What a year it is turning out to be for risk assets!! Global risk assets extended their positive momentum into October (as well) supported by ongoing monetary from the Federal Reserve. The S&P 500 gained +2.34% (YTD +17.52%) in October, while MSCI EM delivered another strong month, rising +4.18% (YTD +32.86%). The US dollar index (DXY) was up 2.08% in October but remains down ~8% YTD. Global EM USD credit also performed well, aided by tighter credit spreads and a rally of 3-8bps across the UST curve. The JPM Emerging Market Bond Index gained +2.20% (YTD +12.53%), while the JPM Asia IG index and JPM MECI GCC delivered +0.66% (YTD +7.23%) and +0.89% (YTD +8.76%) respectively. Credit spreads on investment grade bonds narrowed by 3-7bps while high yield spreads compressed by 30-40bps, reflecting risk-on sentiment supported by strong technical backdrop.

The Final Word

As we approach the finish line for 2025, the risk-on sentiment continues to be fueled by AI spending and related global headlines while the rates market narrative will be driven by inflation and labor market. Markets appear positioned for a gradual rate-cutting cycle, though risks remain. We maintain a constructive view on USD fixed income, particularly investment-grade bonds, supported by resilient fundamentals. However, dispersion within the FOMC along with tight credit spreads, suggests a skewed risk-reward profile for high-beta fixed income exposure. Investors should stay diversified, and brace for occasional bouts of volatility as the outlook evolves.

FI Conventional Portfolio

A diversified portfolio of USD denominated securities, primarily Investment grade, both in the Middle East & North Africa (MENA) region and globally. The portfolio aims to achieve a steady level of interest income with moderate capital appreciation.

BBB+	3.83	5.03%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – October 31, 2025

	YTD	1M	3M	6M	1Y	3Y	5Y	ITD
FI Conventional Portfolio	7.28%	0.56%	2.49%	5.11%	7.47%	28.05%	21.42%	101.18%
Benchmark[1]	8.12%	0.80%	3.30%	5.21%	7.44%	23.67%	8.28%	69.78%

Global Sukuk Fund

A US Dollar denominated Shariah compliant open-ended fund that that will invest in a diversified portfolio of Sukuks globally. The Fund aims to achieve a high level of income with moderate capital growth. The fund pays a semi-annual dividend.

BBB+	3.99	5.51%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – October 31, 2025

	YTD	1M	3M	6M	ITD
Sukuk Fund[2]	7.10%	0.73%	2.61%	3.99%	7.64%
Benchmark[3]	7.21%	0.61%	2.44%	4.11%	7.33%

Notes: The Global Sukuk Fund is managed by QIC Islamic Asset Management LLC, an affiliate company of QIC Asset Management LLC (company registration no. 00602), which is also authorized and regulated by the Qatar Financial Centre Regulatory Authority (QFCRA). (1) Blended benchmark- JPM MECI JCADGCTR Index (60%) & JPM Asia JACIIGTR Index (20%) & Bloomberg US Aggregate LBUSTRUU Index (20%) (2) Assumes reinvestment of dividends. (3)Dow Jones Sukuk Total Return ex-Reinvestment DJSUKTXR Index

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