

Navigating the Currents: Markets, Policy, and Positioning into 2026

Global markets navigated a resilient path through 2025, even as they faced multiple hurdles – fiscal transitions, geopolitical tensions, and shifting monetary regimes. While the noise of trade rhetoric remained a constant backdrop, the underlying narrative was one of adaptation. Markets continued to reward investors who remained disciplined through the year end: global equities delivered a strong return, and the USD fixed income space benefitted from a recalibration of the yield curve and tightening of credit spreads. The economic impact of AI is expected to remain a primary theme for 2026. While AI-related capex has surged, its impact on GDP has been minimal so far; however, hiring headwinds may emerge going forward, consistent with surveyed expectations.

Numbers Behind the Narrative

Against this backdrop, the latest US labor market data reveals a cautious landscape following the recent economic disruptions. In the US, Nonfarm payrolls rose by just 50k in December, undershooting expectations (70k est.) and slightly softer than November's revised 56k increase. Despite this modest hiring pace, the unemployment rate unexpectedly ticked down to 4.4% (from 4.6% in Nov), led by a shrinking labor force and a steady demand in certain sectors. Also, US job openings fell to 7.15mn in November (vs. 7.65mn consensus), more than a one-year low as hiring slowed – indicating most employers remain reluctant to hire. Meanwhile, wage growth remains a bright spot, with average hourly earnings increasing by 0.3% MoM and 3.8% YoY (vs. +3.6% consensus), slightly outpacing inflation.

This cooling trend is mirrored in the inflation data, as November's CPI prints remained within the Fed's comfort zone. The headline CPI rose by 2.7%, while core CPI dropped to +2.6% YoY in November – despite softer inflation print, we would like to take it with a pinch of salt given the data disruptions. Overall, the recent data prints reaffirm that the US labor market is cooling but far from collapsing while inflation normalizes.

Central Bank Watch

Given these labor market dynamics, the Federal Reserve's outlook remains divided. After three consecutive cuts in 2025, bringing the target range to 3.50% – 3.75%, the Fed appears to be signaling a transition. The December meeting confirmed a shift to a "neutral" stance, moving away from an active easing cycle. It appears to us that the bar for a cut has been raised. The committee is expected to remain data dependent as mixed signals from the labor market reinforce the case for caution rather than an aggressive cutting cycle. Clearer evidence from both employment and inflation data will likely be required before the existing divisions within the FOMC meaningfully narrow.

Furthermore, we expect that concerns around central bank independence will extend into 2026, and we see the upcoming change in Fed leadership as one of several reasons why some market participants are skewed towards a dovish tilt. Currently, the market is assigning a very low probability to a January rate cut, as the Fed weighs the trajectory of both inflation and labor market. Markets are currently pricing in two additional cuts for 2026, a more aggressive path than the Fed's current guidance of one. This disconnect creates an environment ripe for volatility (and an opportunity for someone like us to generate alpha for our investors).

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

Quote of the Month

"The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails."

— William Arthur Ward

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January 14, 2025

The Final Word

Fixed income markets ended 2025 on a high note. While the Fed's move to an accommodative stance pulled 2-year yields down by 77bps, the 30-year yield rose 6bps—a clear sign of lingering fiscal sensitivity. By adjusting our sails to this shifting yield curve, **our flagship sukuk fund delivered a stellar return of 7.9% net return in 2025**, surpassing the expectations of most investors.

As we look to 2026, the "easy trade" of following the broad market wind is behind us; with credit spreads at historic tights, we believe alpha will be generated by credit selection and avoiding pitfalls. We continue to remain constructive on USD fixed income space, prioritizing high-quality carry to weather any volatility. **Should the waters get choppy, we are ready to serve as the sailor you need to navigate the year ahead.** As we look forward to the opportunities 2026 will bring, we thank you for your continued trust and partnership.

Happy New Year!! May 2026 be a year of growth and continued resilience.

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+ Avg. Portfolio Rating	3.53 Modified Duration	5.05% Yield to Maturity
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Managed Account Performance – December 31, 2025

	YTD	1M	3M	6M	1Y	3Y	5Y	ITD
FI Conventional Portfolio	8.18%	0.50%	1.41%	4.16%	8.18%	23.86%	19.99%	102.87%
Benchmark¹	8.01%	0.27%	1.39%	3.79%	8.01%	20.84%	8.44%	73.90%

Global Sukuk Fund

A US Dollar denominated Shariah compliant open-ended fund 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+ Avg. Portfolio Rating	3.92 Modified Duration	5.19% Yield to Maturity
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Managed Account Performance – December 31, 2025

	YTD	1M	3M	6M	1Y	ITD
Sukuk Fund²	7.90%	0.44%	1.48%	3.97%	7.90%	8.44%
Benchmark³	7.59%	0.20%	0.97%	3.47%	7.59%	7.72%

Notes: The QIC 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- Pre 2023: JPM MECI GCC (JCADGCTR) Index (60%) & JPM Asia (JACIIGTR) Index (20%) & US Bloomberg Aggregate (LBUSTRUU) Index (20%), 2023 onwards the benchmark is changed to reflect a change in the mandate and duration requirements of the portfolio: Bloomberg Eurodollar Global Aggregate (I02953US) Index (35%), Bloomberg EM USD Aggregate 1-3 (I12885US) Index (25%), Bloomberg EM USD Aggregate EMEA (I13292US) Index (20%), Bloomberg Intermediate US Aggregate (LC08TRUU) Index (20%).(2) Assumes reinvestment of dividends. (3)Dow Jones Sukuk Total Return ex-Reinvestment DJSUKTXR Index

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