



Hedge fund boom pushes DIFC past 100-firm mark

Bloomberg
Dubai

The number of hedge funds registered in Dubai's financial hub has doubled since the start of last year to more than 100. Dubai International Financial Centre (DIFC) is home to 102 hedge funds, following the arrival of firms like Oak Hill Advisors, which has about \$108bn of assets under management. Close to 80% of hedge funds in the DIFC manage assets of more than \$1bn, according to a statement on Monday. Over the course of this year, the likes of Baron Capital Management, BlueCrest Capital, Silver Point Capital and Welwing Capital Group registered in the DIFC,

joining behemoths such as Millennium Management and ExodusPoint Capital Management that already have a presence in the city. The surge extends beyond hedge funds. The DIFC is approaching 500 wealth and asset management firms, according to a person familiar with the matter, up from about 350 at the start of last year. The growth has been fuelled by more than 1,250 family-related business entities based in the hub and the United Arab Emirates' rising appeal among relocating millionaires. Dubai has become a magnet for hedge funds, drawn by tax-free income, year-round sunshine and a timezone that allows trading across Asian and European markets. Neighbouring Abu Dhabi is expanding rapidly as well, with Marshall

Wace and Arini opening offices there over the past year. Access to the UAE's vast pools of capital remains a key attraction. Abu Dhabi offers proximity to \$1.8tn in sovereign wealth, while Dubai hosts family offices controlling more than \$1tn. Firms are also pitching Gulf postings as perks to recruit and retain talent. Rather than choosing between the two cities, some managers are opting for both. Still, the UAE hedge fund landscape remains dominated by secondary offices and is far from rivalling established hubs. New York, for instance, hosts more than 1,500 hedge fund headquarters, while Hong Kong and London each have over 300, according to Preqin data. Even so, the Gulf country is gaining momentum — including as a launchpad

for startups. At least five portfolio managers from top global hedge funds are setting up their own firms there, Bloomberg News reported last week. Authorities are responding to the surge. Dubai is building three new towers in the DIFC and has retrofitted another to accommodate hedge-fund start-ups. The city is also weighing significant regulatory changes to attract more managers, Bloomberg News has reported. Over in Abu Dhabi, a similar influx of firms helped push the number of operational entities within its financial centre ADGM to 3,227 in the third quarter, a 43% year-on-year increase. Last week, authorities said they plan to spend at least \$16bn to add offices, luxury homes and retail space.

Moroccan central bank holds key rate at 2.25%

Reuters
Rabat

Morocco's central bank yesterday held its benchmark interest rate at 2.25% for a third consecutive meeting, saying current borrowing costs were appropriate given easing inflation domestically and global economic uncertainty.

Thanks to a drop in food and fuel prices, inflation will average 0.8% this year, before picking up to "levels in line with the goal of price stability" at 1.3% in 2026 and 1.9% in 2027, the central bank said after its quarterly board meeting.

The North African country's economy will grow by 5% this year, the bank said, citing a surge in investments. It expects growth to slow to 4.5% next year and in 2027, assuming an average grains harvest at 5mn tonnes.

The bank said the current account deficit will shrink to 1.8% of GDP this year and remain below 2% of GDP in 2026 and 2027, thanks to a drop in energy imports and a surge in exports of phosphates, fertilisers and cars, in addition to increased tourism revenue and remittances by Moroccans abroad.

Morocco's foreign exchange reserves are expected to grow to 448bn dirhams (\$49bn) by 2027, enough to cover 5.5 months of import needs.

Bank lending to the non-financial sector is expected to accelerate, rising 4.1% in 2025 and 5% in both 2026 and 2027.

The fiscal deficit is projected to narrow to 3.4% of GDP in 2026 from 3.9% this year, as rising tax revenues help offset increased public investment spending, the bank said.

World Bank, Vakifbank to mobilise up to \$1.7bn for Türkiye's small businesses

The World Bank is partnering with Türkiye's Vakifbank to mobilise up to €1.5bn (\$1.76bn) to expand access to finance for the country's micro, small and medium enterprises, the multilateral lender said on Tuesday, reports Reuters. The project will leverage a €m750mn International Bank for Reconstruction and Development guarantee to secure a 10-year financing facility composed of commercial financing from international lenders, the World Bank said. The initiative, focused particularly on women and youth, is part of the World Bank's Access to Finance for Jobs and Growth Program, a \$4bn initiative. Türkiye is among the first countries to benefit from the program, which aims to improve access to financial services and instruments for businesses across the Europe and Central Asia region.

Rupee rout dims hopes of a strong recovery in Indian equities

Bloomberg
Mumbai

The Indian rupee's slide to repeated record lows is starting to pinch the equity market, with analysts warning that prolonged weakness could undermine confidence in the nascent recovery of the \$5.2tn stock market.

Asia's worst-performing currency this year has become a near-term risk for Indian stocks, tempering optimism driven by strong economic growth and improving corporate earnings. In December, global funds pulled about \$1.6bn from local equities, wiping out \$1.3bn of inflows from the previous two months. Withdrawals from local debt have accelerated as well.

With India heavily reliant on overseas capital to fund its current-account gap and corporate expansion, sustained outflows threaten to keep equities under pressure. Slowing earnings growth, elevated valuations and a lack of listed artificial intelligence-related names have already led to local shares trailing most emerging-market peers this year.

There's "growing pressure on the currency amid a combination of global uncertainty and India-specific capital flow challenges," said Akshat Garg, head of research at Choice Wealth.

The steepest US tariffs in Asia have weighed on sentiment as traders await the two nations to finalise negotiations. The benchmark NSE Nifty 50 Index slid 0.6% on Tuesday, and now trades about 1.4% off its November peak.

The currency fell past the 91 per dollar mark on Tuesday, a new record low. The Reserve Bank of India may not strongly resist further weakness in the current environment, prioritising growth over currency defence, according to Barclays Plc.

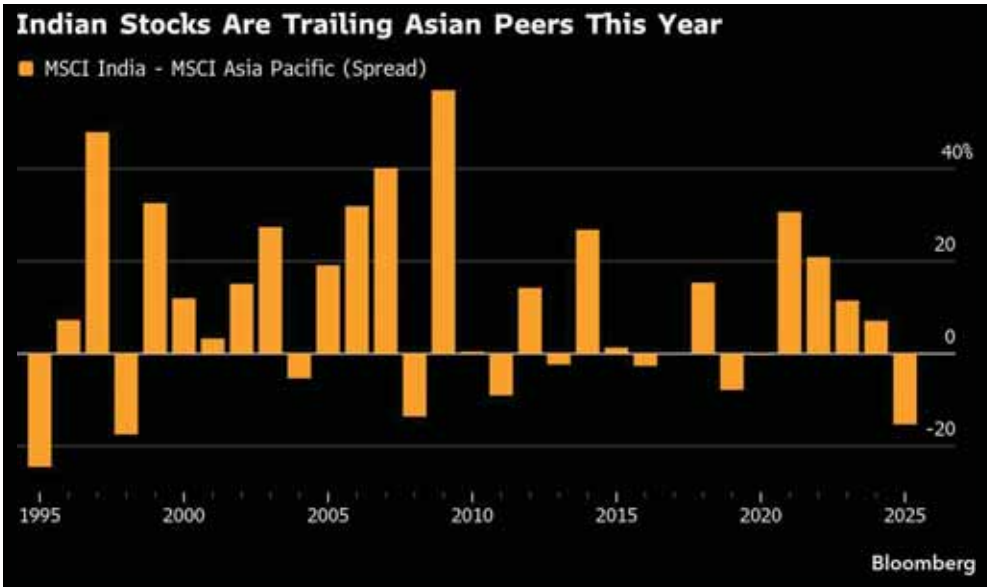
To be sure, a weaker rupee can benefit companies that earn a large share of revenue overseas, particularly technology exporters. A gauge of information-technology stocks has climbed about 14% since the end of September, coinciding with the period in which rupee losses deepened.

For now, traders are bracing for more volatility as the rupee's slide compounds concerns over trade, earnings and capital flows. Until the currency stabilises or global conditions turn more supportive, India's long-awaited equity rebound may continue to struggle for traction.

Equities face muted returns as weaker rupee, range-bound government bond yields, and modest earnings growth "favour selective sectoral exposure", Dhananjay Sinha, head of research at Systematix Shares and Stocks Ltd wrote in a note.

Amid rupee weakness and withdrawals by global funds, robust flows from local institutions have limited downside in the market. Net purchases by mutual funds and insurers crossed \$80bn this year, compared with about \$18bn of foreign fund outflows.

"Support from retail flows has cushioned volatility but hasn't resolved the underlying uncertainties," Chanchal Agarwal, chief investment and strategy officer at Credence Family Office, said in an interview.



A man walks past an installation of the rupee logo and Indian currency coins outside the Reserve Bank of India (RBI) headquarters in Mumbai. Asia's worst-performing currency this year is a near-term risk for Indian stocks, tempering optimism driven by strong economic growth and improving corporate earnings.

Bloomberg QuickTake Q&A

How debt, inflation and politics are driving up borrowing costs

By Ruth Carson and Greg Ritchie

A prolonged period of elevated long-term bond yields is ramping up borrowing costs around the world. That's because investors are demanding extra compensation for holding government debt in the face of entrenched budget deficits, sticky inflation and burgeoning questions around central bank independence.

Expectations that a cycle of central bank rate cuts will end soon — and even give way to rate increases in some parts of the world — are also denting sentiment, pushing yields on longer-dated debt back to levels last seen in 2009. As investors assess the yields at which they're willing to buy bonds, they're concerned that politicians lack the ambition, or even the ability, to rein in their countries' finances. If rising borrowing costs are accompanied by sustained price pressures, central bankers might be helpless to respond.

What's been happening with long-dated bonds?

Traders buy and sell bonds based on the relative appeal of their fixed interest payments. The longer until expiration, when the principal investment is repaid, the more can go wrong in the interim. Notes and bonds due in 10 to 100 years usually pay higher interest rates than for bills that mature in less than a year, for example, to compensate buyers for the additional risk. When a country's economic outlook worsens, bond yields typically fall as investors become willing to accept lower returns. That's partly in anticipation that the central bank will shift its focus from combating inflation to

stimulating economic activity via lower benchmark interest rates. The prospect of lower returns from stocks and other economically sensitive assets can also fuel demand for bonds. Lately, however, yields for long bonds have been rising. In the US, that's in part because the economy, while not booming, has been strong enough to power share prices to records, while inflation has remained stronger than forecast.

Why are there concerns about debt and deficits?

Governments across the world loaded up on cheap debt after the 2008 global financial crisis, then borrowed even more to cope with coronavirus lockdowns and accompanying recessions. Global debt reached a record \$324tn in the first quarter of 2025, driven by China, France and Germany, according to the Institute of International Finance. The borrowing binge was fuelled in part by a prolonged period of ultra-low interest rates following the financial crisis, which ended abruptly when the pandemic triggered a surge in inflation. Major central banks raised interest rates and wound down bond-buying programs known as quantitative easing, making the scale of borrowing harder to sustain. Some central banks are now even actively selling the debt they accumulated via quantitative easing back into the market, adding further upward pressure on bond yields. The concern is that if yields stay high and governments fail to get their fiscal houses in order, the cost of servicing some of that debt will just keep climbing. In the US, the cost of President Donald Trump's sweeping tax-and-spending law is a further worry for bond investors. The

One Big Beautiful Bill Act could add \$3.4tn to the US deficit over the next decade — not accounting for dynamic effects such as the potential growth impact — according to the Congressional Budget Office, which provides nonpartisan analysis of US fiscal policy. Moody's Ratings stripped the US of its last-remaining top credit score in May, citing fears that the ballooning national debt and deficit will damage the country's standing as the preeminent destination for global capital. Import tariffs the administration began enforcing in 2025 had raised about \$240bn in revenue through November, helping the deficit to unexpectedly narrow for the fiscal year. But even if they survive legal challenges, they won't raise enough to close the gap.

What's been driving the recent bond moves?

As well as the lingering debt strains, politics have been a major factor. Trump has repeatedly criticised Federal Reserve Chair Jerome Powell, whose term ends in May 2026, for not cutting interest rates more quickly. White House National Economic Council Director Kevin Hassett has emerged as the front-runner to replace Powell, and he's widely considered a supporter of Trump's preference for lower rates. Concerns around the independence of the next Fed chairman are spurring some investors to demand higher interest as compensation for holding US Treasuries. The assumption is that the next Fed chair could push for faster, deeper rate cuts to please Trump, leading to a surge in inflation that sends bond yields soaring anew. The combination of global risks is pushing the so-called "term premia" — what

investors demand for the uncertainty of holding bonds for longer — higher.

Why is a spike in long bond yields a problem?

Investors want the bond market to be predictable and steady, as these assets are what many of them hold to ensure a rock-solid stream of income to balance out the volatility of higher-risk, higher-reward investments such as technology stocks. When longer-term yields jump, they raise the cost of mortgages, auto loans, credit card debt and other forms of borrowing, squeezing households and companies and weakening economic activity. And if long bond yields stay high, it will gradually affect how much it costs governments to borrow too. That, and any accompanying deterioration in economies, could mean a "doom loop" in which debt levels climb even higher no matter what governments do with tax and spending. At times, rebellions in markets can even lead to the fall of governments — as seen in the UK in 2022. Then-Prime Minister Liz Truss's mini-budget, which included billions in unfunded commitments, roiled the bond market and led investors to drive up borrowing costs. In the early 1990s, so-called bond vigilantes were said to be powerful enough to force President Bill Clinton to rein in US debt.

Where could things go from here?

It's not clear what a prolonged period of higher borrowing costs would mean for the mountain of long-term debt that governments binged on during 15 years of ultra-low interest rates. The upward shift in yields is already leading to new phenomena with unpredictable consequences. Japan's

government bonds used to have such low yields that they acted as a kind of anchor by adding downward pressure on yields the world over.

In the UK, Chancellor Rachel Reeves has had to show the bond market she's on top of the nation's finances while navigating tensions within her own party over spending.

In the US, there's still concern that post-pandemic inflation isn't yet under control and that Trump's import tariffs could add further inflationary pressure that exacerbates the bond yield spike. On the other hand, his trade war may also weaken the economy, leading the Fed and other central banks to cut interest rates. Or both could happen, whereby there's a surge in prices accompanied by falling economic output or zero growth — a situation known as stagflation. This would add to the uncertainty over monetary policy, forcing the Fed to choose between supporting growth or suppressing inflation.

Is this a taste of the future for long bond yields?

Jamie Rush, Tom Orlik and Stephanie Flanders of Bloomberg Economics have argued that politics and structural forces could potentially make 10-year Treasury yields of 4.5% the new normal. That comes as decades of decline in the "natural" interest rate — the real interest rate that would prevail if the economy were operating at full employment with stable inflation — have already ended, and partially reversed. "In the years ahead, the natural rate is set to edge higher still," Rush, Orlik and Flanders wrote in a book, The Price of Money, published in August 2025. "If risks from debt, climate, geopolitics, and technology crystallise, it could rise quite a lot."



Asian markets retreat as tech worries weigh

AFP
Hong Kong

Asian markets extended losses with Wall Street yesterday as investors prepared for key US jobs and inflation data, while sentiment remains subdued by worries over a possible tech bubble.

In Tokyo, the Nikkei 225 closed down 1.6% to 49,383.29 points; Hong Kong - Hang Seng Index ended down 1.5% to 25,235.41 points and Shanghai - Composite closed down 1.1% to 3,824.81 points yesterday.

After a healthy tech-led run this year, traders appeared to be seeing it out on a tepid note amid questions over the huge sums pumped into artificial intelligence and indications the Federal Reserve will pause cutting interest rates.

All eyes are on the release later in the day of US November jobs data and the delayed reading for October, which will be followed on Thursday by consumer price index figures. The readings will be pored over for some idea about the Fed's plans for borrowing costs as officials debate whether or not to continue lowering them in January.

Comments from decision-makers show the policy board split, with recent reductions coming on the back of worries about the weakening labour market but concern now turning to stubbornly high inflation.

Governor Stephen Miran - an appointee of Donald Trump - warned that rates are still too high, while New York Fed boss John Williams said they were at about the right place and Boston president Susan Collins called the decision a "close call".

"After essentially missing the October jobs report due to a



Visitors watch stock prices at the Tokyo Stock Exchange. The Nikkei 225 closed down 1.6% to 49,383.29 points yesterday.

lack of survey data, the Fed will closely scrutinise the November figures when setting out the path of monetary policy through early 2026," Matt Weller, head of market research at City Index, said.

"That said, traders are currently pricing in only a one-in-four chance of another rate cut in January, meaning that the market reaction to the release may be more limited unless it shows a large deterioration in the labour market."

With the chances of a cut appearing limited for now - with some putting them at about 25% for next month - equity traders were turned sellers for now.

Seoul lost more than 2%, while Tokyo, Hong Kong, Shanghai and

Taipei were all more than one percent lower. Sydney, Singapore, Manila, Mumbai, Bangkok and Jakarta also fell.

London, Frankfurt and Paris opened lower. Worries over the tech sector were also weighing on sentiment, with recent warnings about an AI-fuelled bubble compounded by weak disappointing earnings last week from Oracle and Broadcom.

Speculation that the hundreds of billions of AI investments will take some time to make returns, if at all, has also acted as a drag.

"Jitters over the AI theme have resurfaced in recent sessions, not helped by Broadcom's failure to provide concrete guidance for the quarter ahead, nor by reports

that Oracle's data centre construction may be delayed," wrote Pepperstone's Michael Brown.

"Concern also lingers over the increase in debt-financed capex, especially from the likes of Oracle, though those concerns seem more likely to linger in the background into next year, as opposed to sparking significant fear in the now."

The downbeat mood on equity markets has filtered into the crypto sphere, with bitcoin briefly falling to as low as \$85,171, while gold - a go-to asset in times of uncertainty - hovered around \$4,300 and close to a new record high. The yen held gains against the dollar ahead of an expected rate hike by the Bank of Japan on Friday.

Carry trade revival that electrified EM spurs optimism for 2026

Bloomberg
London

Big investors say that carry trades across emerging markets have further to run in 2026 following a blockbuster year for the popular strategy.

Ebbing volatility in foreign exchange markets and a weak US dollar provided fertile ground for the trade, where investors borrow in low-yielding currencies to buy those offering a higher payout. One Bloomberg measure of the strategy has returned some 17% this year, the biggest gain since 2009. A bevy of asset managers and banks - from Vanguard Group Inc to Invesco Ltd and Goldman Sachs Group Inc to Bank of America Corp - expect the gap between rates in developed and emerging markets to persist next year, with the Federal Reserve and most other rich-country central banks seen keeping borrowing costs low. That setup, in theory, should also continue pressuring the US dollar, which has lost more than 7% in 2025.

"The carry trade still offers value, especially in high-yielders like Brazil, Colombia, and select African markets," said Gorky Urquieta, co-head of emerging-market debt at Neuberger Berman. Following this year's performance, however, "opportunities are becoming more selective."

Investors have had their pick of attractive carry plays this year, which was marked by strong gains in emerging-market stocks, bonds and currencies. Countries such as Brazil and Colombia - where benchmark interest rates remain elevated - have seen their currencies rise more than 13% against the dollar.

The US economy's trajectory is a crucial factor in determining whether that performance continues. Ideally, investors are counting on subdued growth that will encourage the Fed to continue

easing monetary policy, dulling the dollar's appeal against other currencies. An outright recession could upset that balance by stoking aversion towards risk, while a hotter-than-expected economy would put the threat of rate increases on the horizon.

"With a weakening US dollar, carry should remain a source of return," said Wim Vandenhoeck, co-head of emerging-market debt at Invesco. Vandenhoeck is bullish on the Brazilian real, Turkish lira and South Africa's rand, among other currencies. On a podcast earlier this month, Brian Dunne, head of Americas foreign exchange options trading at Goldman Sachs, highlighted the appeal of shorting the dollar versus the real, rand and Mexican peso. An equal-weighted basket of that trade has returned about 20% year-to-date.

Invesco has been selling the greenback versus the rand, as well as the euro versus the Hungarian forint - a trade that has returned some 11% so far in 2025 inclusive of carry. Bank of America, meanwhile, likes buying the real against the Colombian peso, a relative rate-differentials trade that has earned more than 2%.

Investors are also gauging whether foreign exchange gyrations will remain comparatively muted - an important component of carry trades, where an unfavourable currency move can quickly wipe out months of gains.

At the moment, expectations for swings are low, with one JPMorgan gauge of emerging market currency volatility over the next six months trading near its weakest level in five years. That, paradoxically, can be a concern for market participants wary that a snapback is overdue.

"Volatility is very low in a lot of places," said Francesca Fornasari, head of currency solutions at asset manager Insight Investment. "That's my only worry, that the benign story is to some degree in the price."

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Charting a cleaner future: Publication guides leaders through energy transition

What will it take to secure energy for 8bn people, cut global emissions nearly in half by 2030, and redesign the world's power systems to meet the most ambitious climate goals in history? The Al-Attiah Foundation's landmark 2025 academic publication, *The New Energy Paradigm in a Carbon-Constrained World*, brings together cutting-edge research and global policy insight to answer these urgent questions at one of the most decisive moments for the planet. Drawing on data showing that over 70% of global greenhouse gas emissions originate from energy systems and that the world has already used roughly 85% of the remaining 1.5C carbon budget, the book offers an indispensable guide for leaders navigating today's rapidly shifting energy landscape.

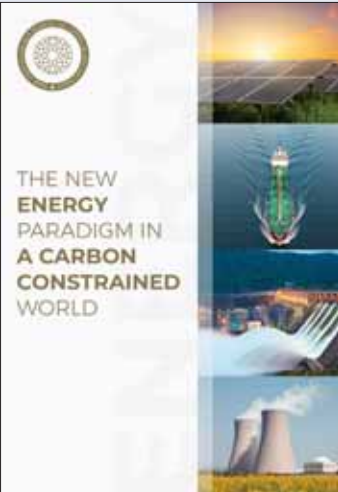
Arriving at a pivotal time for international climate and energy discussions, the publication explores how nations can balance the three competing forces of the energy trilemma: Security, sustainability, and affordability. This balancing act is becoming increasingly complex amid intensifying climate pressures, volatile geopolitics, and rapid technological change. The book highlights how global policies from the Paris Agreement to the recent outcomes of COP29 and COP28's "UAE Consensus" are accelerating expectations for renewable energy deployment and ambitious emissions reductions.

Across thirteen chapters, *The New Energy Paradigm in a Carbon-Constrained World* provides comprehensive research, quantitative analysis, and diverse policy perspectives on energy transition pathways. It examines the physical science of climate change, international climate law, the role of non-fossil fuels, emerging technologies such as hydrogen and carbon capture, and the growing importance of digitalisation and smart grids. It also addresses global inequalities, emphasising that over 700 million people still lack access to electricity, and that climate vulnerability remains highest in regions least responsible for global emissions.

In his foreword, HE Abdullah bin Hamad al-Attiah, Chairman of the Al-Attiah Foundation, writes: "It is my hope that *The New Energy Paradigm in a Carbon-Constrained World* will serve as a critical guide and catalyst for action as we collectively rise to meet the challenges and opportunities of a just energy transition." This sets the tone for a volume intended not only to inform, but to inspire practical, globally coordinated action.

This latest academic contribution reinforces the Al-Attiah Foundation's leadership in advancing informed, independent, and impactful energy research. As part of its mission, the Foundation will continue to convene expert dialogues, produce high-quality technical reports, and support policymakers in forging resilient, affordable, and sustainable energy systems.

The New Energy Paradigm in a Carbon-Constrained World is available through the Foundation's website at www.abhafoundation.org



Fed's liquidity tool gets a rebrand after 'crisis of confidence'

Bloomberg
Washington

The Federal Reserve was forced to quickly pivot from shrinking its balance sheet to adding liquidity back to the financial system last week because of inefficiencies in a key funding facility, Wall Street strategists said.

As part of efforts to regain control of money markets, the central bank removed operational limits to its liquidity tool, the Standing Repo Facility, and rebranded it to "standing repo operations" in a move that appeared aimed at easing the stigma around its use.

It was "a crisis of confidence" in the Fed's main mechanism for preventing money market strains that prompted officials to launch Treasury bill purchases, alongside these moves, less than two weeks after they stopped unwinding holdings, Morgan Stanley strategists said.

"The binding constraints that inhibit more regular use of the SRF - by primary dealers and other eligible counterparties - led the FOMC to believe it would not work as intended and allow for effective rate control," Morgan Stanley strategists that include Martin Tobias and Matthew Hornbach wrote in a note to clients on Friday. "So the easiest solution for the Committee was to provide a buffer around levels consistent with ample and err on the side of abundant reserves"

Fed Chair Jerome Powell acknowledged last week that the drop in reserves and distortions in funding markets "came a little quicker than expected," as short-term interest rates rose above the central bank's administered rates - including those on the SRF. In response, the central bank said it will start buying \$40bn a month in short-term securities to help ease borrowing costs.

The Fed's actions came even as bank reserves have increased to \$2.97tn from about \$2.8tn on October 29, when officials announced the end of balance



The Federal Reserve building in Washington, DC. The Fed was forced to quickly pivot from shrinking its balance sheet to adding liquidity back to the financial system last week because of inefficiencies in a key funding facility, Wall Street strategists said.

sheet unwind, a process known as quantitative tightening, the Morgan Stanley strategists noted. But money markets had been flashing signals for months that pressures were building up in the \$12.6tn market. A ramp up in Treasury bill issuance since the summer, combined with QT, has siphoned cash away, draining the central bank's main liquidity facility and pushing short-term rates higher.

As funding costs rose, institutions tapped the SRF for a total of \$50.4bn at the end of October, the highest amount since before the operations were made permanent more than four years ago. While usage increased periodically, officials said a number of transactions occurred above the facility's offering rate of 4%, suggesting counterparties were hesitant to use it.

Since its inception in July 2021 the SRF had been rarely used while the Fed was still buying securities, adding reserves to the system. The expectation was

that once it started shrinking its balance sheet, it would act as a liquidity backstop and help keep a lid on repo rates.

Instead, market participants have pushed back against officials urging them to use the facility more, complicating the central bank's efforts to ease strains in the repo market. At a Treasury conference last month, primary dealers said that borrowing directly from the Fed still carries a stigma and could be seen as a sign of trouble. Others pointed to operational and balance-sheet constraints that made it difficult to access the tool.

New York Fed President John Williams said in remarks Monday that the Fed's standing repo operations can act as a "shock absorber" by capping pressures on money market rates resulting from strong liquidity demand or market stress. He expects operations "will continue to be actively used in this way."

Some Fed officials have acknowledged limitations of the

SRF. Dallas Fed President Lorie Logan expressed disappointment that rates on a large share of tri-party repo transactions had exceeded the SRF rate during October. And Fed Governor Stephen Miran said this week that the tool hasn't performed as hoped.

Bank of America strategists Mark Cabana and Katie Craig wrote in a note Monday that the change to market operations is an effort to reduce negative perceptions or stigma associated with an "official sector 'facility.'"

The strategists suggested more ways to encourage adoption, such as reporting dealer and bank usage separately and more frequent offerings, among other things.

"The Fed never tested the SRF under fire because rates were never high enough to justify usage," said Joseph Abate, head of rates strategy at SMBC Nikko. "It's a process of learning. They created the programme, they're seeing it and they're making changes"

US employment growth rebounds more than expected in November

Reuters
Washington

US job growth rebounded more than expected in November after non-farm payrolls were depressed in October by government-related spending cuts, suggesting no material deterioration in labour market conditions as businesses navigate economic uncertainty wrought by President Donald Trump's aggressive trade policy.

While the Labor Department's closely watched employment report yesterday showed the unemployment rate at more than a four-year high of 4.6% last month, the Bureau of Labor Statistics changed its methodology after the 43-day government shutdown prevented the collection of data from households. No unemployment rate for October was published.

"The firmer private sector employment figures support the Fed taking a pause in its rate-cutting cycle for some period," said Kathy Bostjancic, chief economist at Nationwide. "The unemployment rate... should be taken with a large grain of salt since the disrupted normal collection of the household survey data due to the government shutdown distorted the data readings and is associated with higher-than-usual standard errors."

Non-farm payrolls increased by 64,000 jobs last month. The economy shed 105,000 jobs in October, reflecting the departure of more than 150,000 federal employees who took deferred buyouts as part of the Trump administration's push to shrink the government's footprint. Most of them dropped off government payrolls at the end of September.

Payrolls were not impacted by the furloughing of workers during the shutdown, as they were retroactively paid when the government reopened. The unemployment rate is calculated from the household survey and was at 4.4% in September.

"In the household survey, composite estimation relies on data from the previous month as an input to developing statistical weights for the current month's data," BLS said. "Without October data, the composite weighting formula was adjusted by shifting previously-collected data forward one month."

The BLS also said the response rate was a lower-than-usual 64%, noting that collection started late because of the shutdown, which contributed to slightly higher-than-usual standard errors. "The Novem-

ber unemployment rate required a 0.26 percentage point change to be statistically significant compared with a required change in September of 0.21 percentage point," it said.

Job growth has been little changed since April. Economists say employers have pulled back from hiring because of what some described as shock from Trump's sweeping import tariffs.

The import duties have raised prices for many goods, resulting in consumers, mostly lower- and middle-income households, being more selective in their purchases and ultimately cutting back on spending.

US stocks opened lower. The dollar eased against a basket of currencies. US Treasury yields fell.

Federal Reserve officials last week cut the US central bank's benchmark overnight interest rate by another 25 basis points to the 3.50-3.75% range. However, they signalled borrowing costs were unlikely to fall further in the near term as they awaited clarity on the direction of the labour market and inflation.

Fed Chair Jerome Powell told reporters in a post-meeting press conference that the labour market "seems to have significant downside risks," alluding to a preliminary benchmark revision estimate in September that suggested 911,000 fewer jobs were created in the 12 months through March than previously reported, the equivalent of 76,000 fewer jobs per month.

The BLS will publish the final payrolls benchmark revision in February along with January's employment report. With the release of the January report, it said it would effectively change the birth-death model by incorporating current sample information each month. The BLS uses the model to try to estimate how many jobs were gained or lost because of companies opening or closing in a given month.

"The change follows the same methodology applied to the April through October 2024 forecasts during the 2024 post-benchmark period," the BLS said.

Job gains last month remained narrow, with the healthcare sector adding 46,000 positions, spread across ambulatory healthcare services, hospitals, nursing and residential care facilities. Construction employment grew by 28,000 jobs. Social assistance payrolls increased by 18,000.

Transportation and warehousing employment dropped by 18,000 jobs, reflecting job losses for couriers and messengers.

Wall Street skips tech and goes old school for growth in 2026

Bloomberg
New York

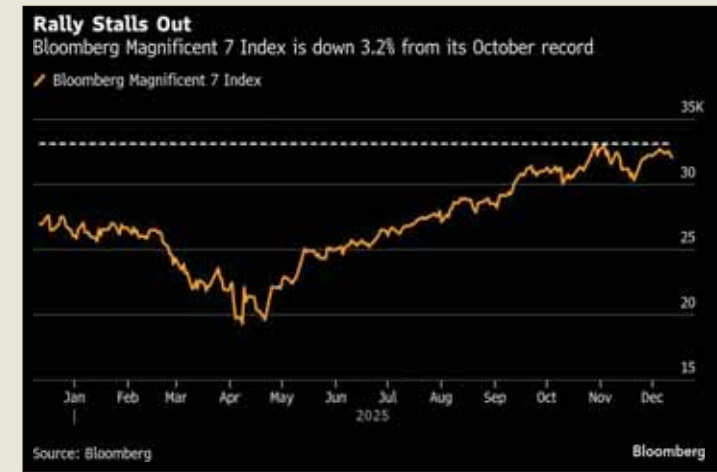
One theme is becoming prevalent as the new year approaches: The technology giants that have been shouldering this bull market will no longer be running the show. Wall Street strategists at firms including Bank of America Corp and Morgan Stanley are advising clients to buy less popular pockets of the market, placing sectors like healthcare, industrials and energy at the top of their shopping lists for 2026 over the Magnificent Seven cohort that includes Nvidia Corp and Amazon.com Inc.

For years, investing in Big Tech firms has been a no brainer, given their stalwart balance sheets and fat profits. Now, there's increasing scepticism over whether the sector - which has surged some 300% since the bull market began three years ago - can keep justifying its lofty valuations and ambitious spending on artificial intelligence (AI) technology. Earnings readouts

from AI bellwethers Oracle Corp and Broadcom Inc that failed to meet lofty expectations amplified those concerns this week.

Worries around the red-hot trade came amid rising optimism over the broader US economy in the new year. The setup may push investors to pile into the lagging groups in the S&P 500 at the cost of megacap tech.

"I'm hearing about people taking money out of the Magnificent Seven trade, and they're going elsewhere in the market," said Craig Johnson, chief market technician at Piper Sandler & Co. "They're not just going to be chasing the Microsofts and Amazons anymore, they're going to be broadening this trade out." There are already signs that stretched valuations are beginning to curb investors' interest in once-unstoppable tech behemoths. Flows are rotating into undervalued cyclical, small-capitalisation stocks and economically sensitive segments of the market as traders position to



benefit from the anticipated boost in economic growth next year. Since US stocks hit their near-term low on November 20, the small-cap Russell 2000 Index has gained 11% while a Bloomberg gauge of Magnificent Seven companies posted half of that advance. The S&P 500 Equal Weight Index, which makes no distinction

between a behemoth like Microsoft Corp and relative minnow like Newell Brands Inc, has been outperforming its cap-weighted counterpart over the same period. Strategas Asset Management LLC, which prefers the equal-weighted version of the S&P 500 over the standard gauge, sees a "great sector rotation" into this year's

underperformers like financials and consumer discretionary stocks in 2026, according to Chairman Jason De Sena Trennert. It's a view shared by Morgan Stanley's research team, which emphasised broadening in its year-ahead outlook. "We think Big Tech can still do OK but will lag these new areas, most notably consumer discretionary - especially goods - and small- and mid-caps," said Michael Wilson, chief US equity strategist and chief investment officer at Morgan Stanley.

Wilson, who correctly predicted a rebound from April's rout, says the market widening could be supported with the economy now in an "early-cycle backdrop" after troughing in April. This tends to be a boon for laggards like lower-quality, more cyclical financials and industrials. Bank of America's Michael Hartnett said on Friday that markets are front-running a "run-it-hot" strategy in 2026, rotating into "Main Street" mid-caps, small caps and micro caps from Wall Street megacaps.

Earlier in the week, veteran strategist Ed Yardeni of his eponymous firm Yardeni Research effectively recommended going underweight Big Tech versus the rest of the S&P 500, expecting a shift in profit growth ahead. He was overweight information technology and communications services since 2010. Fundamentals are also on their side. Earnings growth for the S&P 493 is projected to accelerate to 9% in 2026 from 7% this year as the earnings contribution from the seven largest companies in the S&P 500 is set to fall to 46% from 50%, according to data from Goldman Sachs Group Inc. Investors will want to see evidence that the S&P 493 are meeting or beating earnings expectations before getting more bullish, according to Michael Bailey, director of research at FBB Capital Partners. "If jobs and inflation data remain status quo and the Federal Reserve is still easing, we could see a bullish move in the 493 next year," he added.