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GULF TIMES BUSINESS



STRUCTURAL SHIFTS: Page 2

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البنك التجاري
COMMERCIAL BANK

Qatar sets one of region's most robust BNPL frameworks: Fintech CEO

By Peter Alagos
Business Editor

Qatar Central Bank (QCB) has established one of the region's most comprehensive buy now, pay later (BNPL) regulatory frameworks, with mandatory affordability checks, credit bureau reporting and a ceiling on consumer exposure among its core requirements, a fintech expert has said.

The framework balances consumer safeguards with market growth, positioning Qatar as a leader in responsible BNPL regulation, according to Dr Devid Jegerson, the CEO of PayLater, a Qatari fintech company specialising in BNPL solutions.

Jegerson explained that the measures are not hurdles but foundations for sustainable expansion. "This is where Qatar leads, and it is a point of pride for us to operate inside that framework," he told *Gulf Times* in an exclusive interview.

The framework also includes creditworthiness assessments, clear pre contract disclosures, and rapid complaint resolution mechanisms, making Qatar's regime among the most comprehensive in the Gulf, he further stated.

PayLater's engagement with the regulator is continuous and covers transparency, responsible lending and financial literacy, Jegerson noted, describing the relationship as genuinely collaborative rather than merely compliance driven.

"An informed customer is a pro-



PayLater CEO Dr Devid Jegerson.

tected customer," he emphasised. He said the guardrails Qatar has put in place offer real protection against the debt cycles seen in less regulated markets.

Affordability limits, credit bureau reporting and exposure ceilings are not bureaucratic hurdles, he added, but the structural conditions that make sustainable BNPL growth possible.

"We do not experience these as constraints; we experience them as the foundation of a market worth leading," Jegerson said.

Asked about balancing growth with consumer protection, Jegerson explained that the two are not in conflict

over any meaningful time horizon. "A customer who over extends does not come back; a customer who trusts you stays for life," he said.

He stated that PayLater would rather turn down a transaction today than harm a customer tomorrow. "A BNPL company that forgets that is not building a business; it is building a liability. We intend to be here for decades," he stressed.

Jegerson added: "In fintech, the regulator is not an obstacle but a co builder of the trust infrastructure that makes the whole business possible.

A well regulated market is the only kind worth winning."

Key US inflation measure posts largest annual increase in three years

Reuters
Washington

US inflation increased at its fastest pace in three years in April, driven by higher energy prices due to the Iran war and cementing economists' views that the Federal Reserve would hold interest rates unchanged well into next year.

Surging price pressures are eroding household income and threatening to restrain consumer spending and economic growth this year. Income at the disposal of households after adjusting for inflation dropped for a third straight month in April, with the saving rate hitting a four-year low, other data from the Commerce Department showed on Thursday.

Given the soaring cost of living, US consumers are growing frustrated with President Donald Trump's handling of the economy. A Reuters/Ipsos survey last week showed Trump's presidential approval rating fell to nearly its lowest level since he returned to the White House in early 2025, dented by a drop in support among Republicans.

Trump won the 2024 presidential election in large part because of his promise to lower inflation. The rising cost of gasoline and other items could undermine his Republican Party's prospects of maintaining control of Congress in the midterm elections in November. Trump on Wednesday said he was unconcerned about the political fallout of an extended conflict with Iran.

"The inflation picture is becoming increasingly uncomfortable for the Fed," said Olu Sonola, head of US economics at Fitch Ratings. "Price pressures are likely to persist over the next few months, and while the Fed cannot fix a supply shock, it cannot ignore one that is feeding into underlying inflation."

The Personal Consumption Expenditures Price Index jumped 3.8% in the 12 months through April, the largest rise since May 2023,

the Commerce Department's Bureau of Economic Analysis said. PCE inflation advanced by an unrevised 3.5% on a year-over-year basis in March. The increase last month was in line with economists' expectations. The index gained 0.4% on a month-over-month basis in April after shooting up 0.7% in March.

The national average retail gasoline price increased 12.3% in April, data from the US Energy Information Administration showed. Gasoline prices have risen more than 50% since the war started in late February.

Consumers are also paying higher prices for other goods and services. Inflation was already elevated before the war, largely because of Trump's sweeping import duties, and the pass-through from tariffs continues. Goods prices increased 0.7% last month, with the cost of gasoline and other energy products rising 5.5%.

Food prices rebounded 0.5%. Excluding the volatile food and energy components, the PCE price index increased 3.3% on a year-over-year basis in April, marking the biggest annual gain in so-called core PCE inflation since November 2023 and up from the 3.2% rise in March.

Core PCE inflation gained 0.2% in April on a monthly basis after advancing 0.3% in March. The Fed tracks the PCE inflation measures for its 2% target. Financial markets expect the US central bank will keep its benchmark overnight interest rate in the 3.50%-3.75% range into 2027. Minutes of the Fed's April 28-29 meeting published last week showed a growing number of policymakers are open to the possibility that they may need to hike rates.

Recreational goods and vehicle prices increased 1.6% in April, while clothing and footwear cost 0.4% more. But prices of furnishings and durable household equipment fell for a second straight month.

Services prices increased 0.3% in April for the third straight month. The cost of housing and utilities rose 0.6% while prices for transportation services climbed 0.4%.

Mideast war reshaping national energy strategies, says IEA

AFP
Paris

The Middle East war is pushing countries to open new supply routes and turn to domestic resources to tide over the world's biggest energy crisis, the International Energy Agency (IEA) said on Thursday.

"We are in the midst of the largest energy security crisis the world has ever faced -- and I believe this will reshape investment strategies globally, with parallels to the major changes the energy world witnessed after the oil shocks of the 1970s," said IEA executive director Fatih Birol.

"We are already seeing intensified efforts by both producer and consumer countries to diversify trade routes and energy sources -- such as advancing new pipelines and other supply infrastructure, on the one hand, and turning more to domestically available resources, on the other," he added in the World Energy Investment report by the energy agency of the Organisation for Economic Co-operation and Development (OECD). The IEA estimates that global energy investment will reach \$3.4tn in 2026, slightly higher than the previous year, with around \$2.2tn devoted to power grids, storage, low-emission fuels, nuclear, renewables, energy efficiency and electrification. Alongside this, around \$1.2tn is



International Energy Agency executive director Fatih Birol.

expected to be invested in oil, natural gas and coal. It nevertheless expects oil investment to decline for the third straight year in 2026, falling below \$500bn despite rising crude prices.

This is due to uncertainty over how long higher prices will last, project lead times, supply constraints and the tightening offshore rigs market, which are limiting short-term investment outside the Middle East. By contrast, investment in natural gas is "projected to rise to \$330bn, the highest level in a decade, supported by a wave of new LNG export projects, particularly in the United States and Qatar," IEA said. At the same time, oil-importing countries are turning to energy sources available domestically, notably renewables, nuclear

and coal, the report said. The IEA estimates that investment in renewables should reach around \$665bn in 2026, including \$365bn for solar alone.

Investment in nuclear energy and is set to exceed \$80bn annually while investment in coal should reach \$180bn -- the highest in 10 years, it said. China alone will account for nearly 70% of global coal supply spending, and some Asian countries may seek to extend the operation of their existing coal-fired power plants in order to strengthen their energy security. The IEA said investment in electricity supply and infrastructure is expected to reach nearly \$1.6tn in 2026, including around \$550bn for power grids, while investment in battery storage should exceed \$100bn.

Central bank credibility is key in new world order: ECB chief

Bloomberg
Frankfurt

European Central Bank (ECB) President Christine Lagarde said that governments might be inclined to tighten their grip on monetary authorities and stressed that upholding central-bank independence is even more important in an increasingly challenging global order.

Invoking Napoleon Bonaparte, who in 1800 founded the Banque de France and years later, as the demands of the state grew, gradually took back the independence he had granted, the Frenchwoman said that "it is precisely this temptation that the period ahead is likely to sharpen."

"In a world where conditions are getting harder, the challenge is no longer to simply maintain legal independence, but above all to maintain the credibility that is needed to exercise it," Lagarde said on Thursday.

Addressing a conference in Phnom Penh, Cambodia, she added that "the lesson of history is clear: It takes time to build trust, but only an instant to lose it."

Concerns over threats to central-bank independence have intensified amid mounting political pressure on policymakers worldwide. In the US, Donald Trump's nominee Kevin Warsh just took over from Jerome Powell under



Christine Lagarde, president of the European Central Bank.

pressure from the president to lower rates. At the same time, the Iran war has also pushed up inflation in the US.

While the ECB's autonomy is enshrined in the European Union treaty, some officials worry that political interference could also weaken their ability to deliver on their price-stability mandate. Executive Board member Isabel Schnabel recently warned of a risk of a "quiet erosion" of independence through fiscal and financial dominance.

Lagarde said that over the past decade, the "de facto independence" has deteriorated in almost half of central banks in countries that account for 75% of

global gross domestic product. She also highlighted that the environment for policymakers is becoming less favorable with supply shocks becoming more frequent, fiscal pressures rising and trust in public institutions declining.

With such shifts, credibility -- "earned through action" -- is becoming decisive, said Lagarde, who is expected to oversee a rate hike at the ECB's June 10-11 meeting.

"It is precisely when monetary policy decisions are politically fraught and economically costly that credibility is most needed," she said. "And it is also when credibility is hardest to keep."



Trump Fed pivot raises dollar-policy doubts too

By Mike Dolan
London

If Donald Trump is indeed backing off and allowing the Federal Reserve to do what it needs to do, then the US president may have to park his administration's long-assumed preference for a weaker dollar too. For some nervous Republicans, that may come as a relief.

As his appointee Kevin Warsh was sworn in as Fed chair last week, Trump appeared to change tack on his perpetual demand for ever-lower US interest rates, and his persistent barracking of Warsh's predecessor, Jerome Powell, on the issue.

In a series of interviews through the week and again at the swearing-in ceremony on Friday, Trump said Warsh would have the room to act as needed and to act independently to fight inflation, provided he did not confuse growth with inflation.

"Don't look at me, don't look at anybody, just do your own thing," Trump said.

He almost reverted to type later in the day, restating a preference for lower rates once energy prices subsided. But the signal had been made by then.

To anyone watching closely over the past year, last week marked a distinct shift in tone. It at least gave Warsh some space to tackle cost-of-living pressures that are weighing on Trump's approval ratings. It also implicitly acknowledged that his new Fed chief has little or no cover to argue for rate cuts with inflation running near 4%.

That's significant for investors because of the growing disconnect between forecasters and markets.

Fed futures markets have wiped out all bets on 2026 rate cuts since mid-March, and 2-year yields have been above the policy rate consistently since then too. Futures are actually priced for the next move being a hike within 12 months.

Yet some 50% of global fund managers polled by Bank of America as recently as mid-May still expected at least one Fed cut by year-end.

Energy market damage, a worsening inflation picture and signals from Fed policymakers largely explain the market pricing.

Yet investors' stubborn rate-cut expectations suggest a lingering belief that Warsh would eventually do his master's bidding this year.

But if the president has stepped back from demanding immediate cuts, that assumption may need revisiting.

How long that restraint lasts is an open question.

Much hinges on the trajectory of the Iran war. But many central bankers, including some at the European Central Bank, argue that monetary tightening is necessary now regardless of a peace deal, in order to signal a commitment to inflation targets.

What's more, the sheer heat of the AI boom is creating chip and energy supply bottlenecks that may sustain higher inflation well beyond the crude oil hiatus anyway. It may be years

before any productivity gains reshape the debate. As former Fed Governor Roger Ferguson wrote for the Council on Foreign Relations this week: "After five consecutive years of inflation above the Fed's 2% target, with cumulative price increases approaching 25%, many Americans continue to feel the strain of an affordability crisis."

Trump's slightly grudging acknowledgment that rates probably shouldn't come down at this juncture may also open another presumed macroeconomic priority of the administration: reversing dollar strength to help re-industrialise America.

Both Trump and his Treasury Secretary Scott Bessent have been relatively guarded in their pronouncements on the dollar; a weaker greenback has been widely assumed to be a central plank of their trade and economic reset, and is backed by many White House advisers.

Giving free rein to Warsh at the Fed could have implications for the dollar beyond just interest rates.

Warsh's preference for shrinking the Fed's \$6.7tn balance sheet could drain dollars from the system over time. His doubts about the Fed's overseas dollar swap lines also raise questions about its role as lender of last resort in dollars for the rest of the world.

While some wonder about the implications of that for global dollar usage over the years ahead, the exchange-rate fallout from those moves alone could well be a stronger dollar.

Some economists think Trump should in any case pivot away from any weak-dollar orientation, as that only worsens cost-of-living pressures on workers and damages the government's already stretched overseas funding of its vast debts.

In an opinion piece for the Project Syndicate site, Glenn Hubbard - former chair of the Council of Economic Advisers under President George W Bush - called the use of the dollar to reinvigorate US industry or lift left-behind workers "the wrong instrument".

Hubbard noted the US had large trade imbalances when the dollar was weak as well, and that tariffs exaggerate manufacturing input costs, given that half of US imports are intermediate goods.

"As November's midterm elections approach, US President Donald Trump must stop pushing for a weaker dollar, which will exacerbate the affordability pressures many Americans face and harm the country's fiscal position," he wrote, adding that more research funding for industry, streamlined regulation and worker retraining are better policies to achieve his aims.

If Trump gives his new Fed chief more than a fleeting window to be hawkish and tamp down inflation, he may be implicitly abandoning a weak-dollar policy in the same stroke. The implications for financial markets could be considerable over the months and years ahead.

■ Mike Dolan is a columnist for Reuters. The opinions expressed here are those of the author.



An abundance of cash in US funding markets appears to be driven by deeper structural shifts that are unlocking billions of dollars in balance-sheet capacity at the biggest banks, according to Wall Street strategists

US funding markets are flooded with cash that's here to stay: Strategists

Bloomberg
Washington

An abundance of cash in US funding markets appears to be driven by deeper structural shifts that are unlocking billions of dollars in balance-sheet capacity at the biggest banks, Wall Street strategists say.

Some \$120bn have poured into money market funds this month alone, adding to a build-up in liquidity in recent weeks. It's a reversal of fortunes from last year's funding strains that sent ultra-short term interest rates soaring and forced the Federal Reserve to end its portfolio runoff.

The flow of money has pushed rates in the market for repurchase agreements, where cash is borrowed and lent overnight against Treasuries, below the bottom of the Fed's target range for its policy benchmark.

The effective federal funds rate, the central bank's benchmark which rarely moves between policy meetings, has dropped twice in the past month. Meanwhile, the Secured Overnight Financing Rate, which is based on the cost of borrowing against Treasury securities, is just above 3.50% after averaging around 3.65% in April.

Strategists from Barclays PLC, RBC Capital Markets, and Bank of America Corp say the softness in the market has gone well beyond the usual seasonal drivers, turning into something more durable.

"I don't think there is a sin-

gle 'smoking gun' and that this continues to be a perfect 'anti-storm' of multiple calming factors coming together in the same direction," said Blake Gwinn, head of US interest rate strategy at RBC.

A persistent drop in funding rates changes how liquidity moves through the financial system.

Softer conditions free up cash during periods of high demand, which can shape the Fed's balance-sheet decisions, influence Treasury's short-term debt issuance and give banks more room to deploy money rather than sit on reserves at the central bank.

The cash is coming from a variety of sources ranging from the central bank's monthly Treasury bill purchases launched at the beginning of the year to the relaxation of financial crisis-era rules that freed up capital after taking effect last month.

Seasonal forces have added fuel, too: The reduction of Treasury bill supply by more than \$270bn around the April tax season and Treasury's cash management buybacks contributed to an imbalance between cash and collateral.

Gwinn said recent changes to the enhanced supplementary leverage ratio have helped remove a constraint that would have tightened conditions over time.

The tweak - which expanded how much cash major lenders can intermediate in the Treasuries market during times of stress - should be seen as a "loosening of the handcuffs,"

making it easier for dealers to absorb flows and hold larger Treasury inventories as balance sheets expand, he said.

Banks were allowed to adopt the rule change even before the April 1 deadline, helping ease conditions even as dealer holdings of Treasuries peaked at an all-time high of \$557bn at the end of March.

Wells Fargo & Co's expansion has also enhanced liquidity. Since the lifting of its asset cap in June 2025, the bank has become one of the largest marginal providers of repo financing, adding tens of billions in balance sheet capacity and stepping into flows that previously would have strained the system. Strategists say its increased presence has been a major factor in keeping conditions benign.

In the first quarter, total assets of the eight global systemically important banks based in the US swelled by a combined \$1.3tn, \$300bn of which was in reverse repo transactions, according to filings. Securities holdings rose by about \$400bn, including \$100bn in Treasury trading books, according to Barclays.

"Taken together, this points to a meaningful expansion in intermediation capacity across cash and repo markets, the outcome regulators were aiming for in relaxing the SLR requirement," Barclays strategist Samuel Earl wrote in a note.

One immediate implication could be a pause in the Fed's monthly bill purchases. The New York Fed's Roberto Perli said last week that reserve

management purchases could be adjusted depending on market conditions.

Earlier this month, Fed officials announced they would further slow the monthly pace of their Treasury bills purchases to about \$10bn, gradually reducing them from \$40bn through April and \$25bn in May.

A pause "could certainly be on the table if funding conditions remain very loose, but at \$10bn a month the pace is already extremely slow," said Gennadiy Goldberg, head of US interest rate strategy at TD Securities.

While some repo rates have begun to normalise this week after Treasury auction settlements and the removal of monthly cash from government sponsored enterprises, traders expect easing to continue.

Even after an increase in bill issuance this month, trading desks say that the cash-collateral imbalance has persisted. Dealers at a trading desk flush with cash were willing to do transactions even as rates briefly dropped to as low as 3.40%, according to Tradition Securities.

Federal Home Loan Banks, which are the biggest lenders in the fed funds market, are likely to continue to invest a rolling amount of cash into the market taking advantage of attractive rates and adding to liquidity, according to Bank of America.

"Our guess at this point is that market conditions will keep the trading range for overnight repo rates somewhat below their Q1 equilibrium," said Wrightson ICAP economist Lou Crandall.

Capital markets units surge 27% to lift Canadian bank earnings

Bloomberg
Toronto

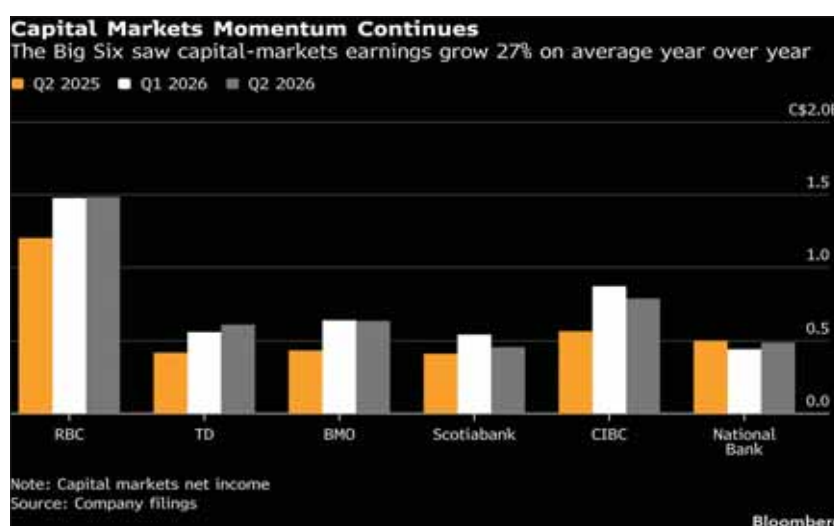
Canadian banks reported another string of earnings beats, once again benefiting from rising equity markets, active trading and more deal-making.

Royal Bank of Canada, Canadian Imperial Bank of Commerce and Toronto-Dominion Bank all posted better-than-forecast results on Thursday, capping the fiscal second-quarter earnings season. Money is flowing back to shareholders: Five of the country's six largest banks announced dividend increases, with Royal Bank increasing its payout by 7%. Both RBC and CIBC announced new share buyback programmes.

Analysts had questioned whether the firms would continue to see elevated profitability in their capital-markets businesses after a blowout first quarter. While the divisions' results were down slightly from that period, they all beat expectations. On average, the six banks reported a 27% increase in capital markets net income from the same period last year, bringing in a total of C\$4.47bn (\$3.23bn).

Toronto-Dominion Chief Financial Officer Kelvin Tran called the capital-markets environment "quite robust" with the "right level of volatility."

"When the market is too volatile, people get concerned and you actually do fewer deals," he said in an interview. "I



would say this quarter we have the right amount of volatility, where trading continues to be good and deals are still getting done."

Toronto-Dominion, Canada's No 2 lender, earned C\$2.38 a share on an adjusted basis in the three months through April, more than analysts' C\$2.26 average estimate.

Net income in its wealth-management and insurance division was a record C\$837mn, up 18% from a year earlier. In TD's capital-markets unit, profit was C\$612mn, topping the C\$558mn average estimate of three analysts in a Bloomberg survey. The lender "accelerated momen-

tum in US banking" Chief Executive Officer Raymond Chun said in a statement.

At Royal Bank, adjusted earnings came in at C\$3.90 a share, more than analysts' C\$3.77 average estimate.

Canada's largest bank, which benefits from a diversified collection of businesses with significant scale, reported net income of C\$5.51bn, up 26% from the same time last year.

Net income at Royal Bank's capital-markets unit totaled C\$1.48bn, better than the C\$1.4bn average estimate. Wealth management came in at C\$1.19bn, falling slightly short of analysts' projections.

World may need to cut use of oil and natural gas: Fed official

Reuters
New York

The world may need to find a way to get by on less oil and gas if the Strait of Hormuz remains closed much longer due to the US-Israeli war on Iran, Dallas Federal Reserve President Lorie Logan said on Wednesday. Iran has throttled shipping through the strait during the three-month conflict, forcing up energy, food and fertiliser prices.

Around a fifth of the world's oil and liquefied natural gas transited the narrow waterway before the war.

"With supplies highly constrained, if shipping through the strait does not soon return to prewar levels, world oil and natural gas consumption could need to fall more meaningfully than it has so far," Logan said in remarks prepared for delivery to a Bank of Japan conference.

"The economic consequences would depend on the degree to which end users can switch to other energy sources or use energy more efficiently, versus curtailing economic activity."

US oil executives in a recent Dallas Fed survey said they expect US oil output to rise this year by only a quarter of a million barrels a day, and by only half a million barrels per day next year.

That compares with a reduction in the global oil supply of about 13mn barrels a day since the start of the Iran war - a shortfall now being largely made up by drawing down inventories that are, Logan noted, finite.

"One way or another, I expect energy markets to come into rough balance before too long," Logan said. "If the molecules aren't



Lorie Logan, Dallas Federal Reserve president.

available, the world can't consume them." Logan was one of three Fed policymakers who voted against last month's interest-rate decision because they felt the US central bank should signal that given rising energy and other prices a rate hike is just as possible as a rate cut.

In her prepared remarks for the closed-door conference on Wednesday, she did not offer any near-term economic forecasts or comment on monetary policy.

She did use the speech to call for boosting the resilience of the Treasury market by centrally clearing the Fed's own Treasury securities trading and enhancing the Fed's liquidity toolkit beyond its standing repo operation, noting that leveraged investors have acquired a growing share of Treasuries.

"Levered positions can unwind rapidly in the event of price or funding shocks," she said. "The Treasury market underpins government finance, the flow of investment, and the implementation and transmission of monetary policy. Its resilience deserves, and requires, ongoing effort and vigilance."

Asian markets slide after new US strikes on Iran

AFP
Hong Kong

Oil prices bounced higher on Thursday while Asian stocks fell, as new US strikes on Iran marked the latest test of a shaky ceasefire in the Middle East war.

In Hong Kong, the Hang Seng Index closed down 1.3% to 25,006.16 points; Tokyo - Nikkei 225 ended down 0.5% to 64,693.12 points and Shanghai - Composite closed up 0.1% to 4,098.64 points yesterday.

The price jumps erased much of Wednesday's declines on the hopes of an imminent deal to end the conflict that has all but halted shipping through the crucial Strait of Hormuz for months.

An American official said the military had shot down four Iranian drones and struck a control centre in the southern city of Bandar Abbas.

The official, speaking to AFP on condition of anonymity, described the latest actions as "measured, purely defensive, and intended to maintain the ceasefire". Tehran's state media said Iranian forces had fired at four ships in the strait, while Kuwait said its air defences were responding to missile and drone attacks.

The developments came despite an Iranian official saying renewed hostilities with the United States were unlikely, and a threat from US President Donald Trump to "finish the job" if a peace deal was not reached.

The mixed signals underscored the fragile state of talks aimed at ending the Middle East war, which has profoundly shaken global energy markets.

Brent North Sea crude, the main international benchmark, rose more than two percent during Thursday trade to

nearly \$97 a barrel, while the main US contract, WTI, increased at a similar pace to around \$91 a barrel.

Stock markets across Asia saw losses on Thursday, with main benchmarks in Hong Kong, Taipei and Sydney closing more than one percent lower.

Tokyo and Seoul saw more moderate declines, while Shanghai was the sole major exchange to buck the trend, finishing the day up 0.1%.

During morning trading in Europe, London fell nearly 1% while Paris was down 0.4%. Frankfurt was flat.

The drops came after a strong day for global stocks on Wednesday, as investors, bullish on artificial intelligence, looked past the conflicting headlines on Iran.

In Asia, South Korean chipmaker SK hynix hit a \$1tn market capitalisation, placing it alongside regional tech heavyweights Samsung Electronics and TSMC, as well as US chipmaker Micron.

The tech surge has coincided with a persistent spike in energy prices, which has threatened several major Asian economies that rely on oil shipments from the Middle East.

Economists warn that central banks may have to raise interest rates if inflation worsens as a result of the war, increasing borrowing costs and potentially weighing on economic growth.

On Wednesday, "every headline pulled the market in a different direction, leaving traders with the same conclusion they have been wrestling with for weeks", said Stephen Innes at SPI Asset Management.

"The Strait may eventually reopen fully, but until there is something more concrete than draft frameworks and political theatre, every barrel remains hostage to headline volatility, even if sub-\$100," he said.

World's appetite for AI makes China less afraid of stronger yuan

Bloomberg
Beijing

The global AI investment boom is powering a new wave of Chinese exports and making Beijing more comfortable with a stronger yuan.

The tightly managed onshore currency is set for a sixth quarter of gains against the dollar - a streak not seen since 2013. In the past, such a move would have drawn a more forceful response from Beijing, which is usually wary it could hurt exports and economic growth.

But even as the yuan climbed to its strongest level since 2023 and the economy looked more fragile, policymakers have shown little urgency to step in. That's in large part because the AI investment boom is changing China's trade structure.

The country once relied on low-cost manufacturing, with producers of garments, furniture and household goods operating on razor-thin margins that made exchange-rate swings matter more. Now, more companies are riding a lucrative wave as demand for semiconductors, servers and other AI hardware becomes a powerful new export driver, easing the pressure a stronger yuan would traditionally place on manufacturers.

Equally striking has been the surge in imports this year, outpacing export growth as China buys more chips and semiconductor equipment. Deutsche Bank AG noted that the last two times inbound shipments grew much faster than outbound - in 2010-11 and 2017 - the yuan strengthened against the dollar. A stronger currency makes imports cheaper.

"What has changed is exports appear less sensitive to currency moves than previously thought, meaning the benefits of currency appreciation carry more weight in exchange rate policy," said Duncan Wrigley, chief China economist at Pantheon Macroeconomics.



The skyline of the Central Business District in Beijing. The global AI investment boom is powering a new wave of Chinese exports and making Beijing more comfortable with a stronger yuan.

Since 2013, China's export engine has expanded dramatically as the yuan fell against the dollar. The country's trade surplus widened from around \$260bn in 2013 to record levels approaching \$1.2tn last year.

Over that period, the yuan weakened from around 6 per cent to beyond 7 at various points. Beijing largely tolerated - and at times appeared to encourage - currency weakness when the economy was under strain, including during the 2015 devaluation that shocked global markets and the 2018-20 trade war with the US. The yuan also faced sustained pressure from 2022 through early 2025 as China's interest rates fell below US levels and the property downturn deepened.

By contrast, when the yuan rose sharply between 2020 and late 2021, the People's Bank of China warned against one-way appreciation through verbal guidance, adjusted foreign-exchange reserve requirements and lowered the costs for forward FX purchases.

Now, even as the yuan strengthened, exports hit another record in April. About half of export growth came from semiconductors and computers, while traditional categories such as clothing and furniture were flat or shrinking.

At the same time, the economy is faltering after a strong first quarter. Yet the PBoC kept daily fixings near the strongest in three years, signaling greater comfort with currency strength. Exporters have also been converting more dollar earnings into yuan, a sign they expect the renminbi to remain stable or strengthen further.

"As Chinese firms continue moving up the value chain, their competitiveness is less dependent on a weak exchange rate," said Rajeev De Mello, portfolio manager at Gama Asset Management.

The PBoC didn't immediately respond to a Bloomberg News request for comment on its exchange-rate policy.

The trend has emboldened more analysts to bet on further gains. Goldman Sachs Group

estimates the yuan is more than 20% undervalued and may strengthen to about 6.5 per dollar in the coming year.

Others expect a bigger move. Macquarie Group said the yuan may hit 5 a dollar, while Alpine Macro Inc's strategist Yan Wang sees a chance it could even hit around 4 over the longer term. The consensus estimate compiled by Bloomberg shows a year-end level of 6.75. The onshore yuan traded around 6.79 on Thursday.

UBS Group AG's top trade for 2026 was going long the yuan against its trade-weighted basket, a position that has returned 4% to 5% in the last six months, according to Rohit Arora, its head of Asia FX and rates strategy. The bank expects a further 3% to 4% gain in the coming months.

Policymakers are unlikely to welcome an unchecked rally. Domestic demand remains weak, the property slump continues to weigh on confidence, and external risks including trade frictions and slowing global growth have not gone away.



An external view of the Hong Kong Stock Exchange. The Hang Seng Index closed down 1.3% to 25,006.16 points yesterday.

Value of SK hynix joins Micron to top \$1tn

AFP
Seoul

The market value of Korean memory chipmaker SK hynix soared past \$1tn on Wednesday, fuelled by frenzied global demand for the computing hardware that powers artificial intelligence tools -- a surge that also carried US-based Micron across the threshold.

SK hynix's new benchmark comes on the heels of rival Samsung Electronics, whose market capitalisation also topped \$1tn this month -- fanning frustration among its workers, who have since struck a deal with management securing massive bonuses and averting a strike.

Shares in SK hynix, which supplies Silicon Valley AI chip titan Nvidia with advanced high-bandwidth memory, were up more than 11% in early after-noon trade.

Its new valuation makes the company one of just three \$1tn firms in Asia, along with Samsung and Taiwanese contract chipmaker TSMC, according to Bloomberg.

Idaho-based Micron also crossed the \$1tn barrier on Tuesday and jumped another five percent at the opening of trade on Wall Street on Wednesday.

Governments and tech firms worldwide are pouring hundreds of billions of dollars into AI data centers that can train and run tools such as chatbots, image generators and agents.

That has caused a dizzying boom in business for companies that make the silicon microchips used to crunch vast amounts of data in these facilities.

"Currently there's a backlog and there's a short supply, and there's a tremendous amount of demand," Adam Sarhan of 50 Park Investments told AFP.

This is "economics 101". Companies like SanDisk, Western Digital and SeaGate technology have also seen their share prices skyrocket as much as 1,000 percent in a year.

In April, SK hynix said net profit had rocketed almost 400 percent to a record high in the first quarter, thanks to the AI boom -- which helped it shrug off concerns that the Middle East war could hit the semiconductor industry.

At Samsung, meanwhile, union members on Wednesday approved a deal with management under which around 78,000 employees will each be eligible to receive a bonus of roughly \$370,000 this year, based on operating profit estimates.

According to Samsung's union, workers at SK hynix received bonuses more than three times larger than those paid out by Samsung last year.

The promised windfall at both firms has sharply elevated the social status of chip engineers in South Korea.

A simple jacket bearing the SK hynix logo went viral on social media this month as a symbol of wealth and success, with parody posts depicting it as a "golden ticket" to luxury boutiques -- or better dating prospects.

Yonhap news agency reported that jobs at Samsung and SK hynix now guarantee "a boost in marriage market value," citing a rise in their "desirability indices" compiled by matchmaking agency Sunoo -- putting them on a par with traditionally prestigious professions such as doctors and lawyers.

Emerging stock rally stalls after setback to Iran accord hopes

Bloomberg
London

Emerging-market (EM) stocks snapped a week-long rally and most currencies weakened as renewed strikes on Iran dashed hopes of a swift resolution to the war.

MSCI Inc's emerging equity gauge was down in London, having lost as much as 2.3% earlier when Asian equities retreated from record highs. Indexes in Johannesburg, Prague and Budapest also slipped, as oil prices rebounded after the airstrikes, which highlighted the fragility of the ceasefire and the challenge of restoring global energy flows.

Currencies of oil-importing nations slipped, with the related MSCI index down 0.1%. Even if the US and Iran reach an agreement, uncertainties related to oil flows will remain for a while, Commerzbank AG warned.

"Given the low level of trust between the two sides, it will likely take some time before we see a real normalisation - and

with it, the foreign exchange markets stabilising again," Commerzbank currency analyst Michael Pfister said.

The South African rand slipped as much as 0.7% against the dollar, while 10-year government bond yields climbed about four basis points ahead of a central bank meeting that is expected to deliver the first interest-rate hike in three years. Rates are seen rising by 25 basis points to 7%.

The forint led losses in eastern Europe, given Hungary's exposure to energy-price swings. Investors will be watching Prime Minister Peter Magyar's talks in Brussels this week, including a crucial meeting with European Commission President Ursula von der Leyen to restore billions of euros of funding from the bloc.

In fixed income, Amundi SA cut its overweight position in Chinese bonds to neutral after a rally that made the market one of the few to outperform amid a global debt selloff. Elsewhere in Asia, bond yields generally rose and currencies weakened.

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Investors stay calm as AI capex boom eclipses dotcom mania

By Jamie McGeever
Orlando, Florida

As US hyperscalers' investment in AI keeps rising, so too do concerns that the eye-popping outlay will fail to generate adequate returns. Does that mean the stock market is in a tech-inflated bubble that is bound to burst like it did after the dotcom mania of the late 1990s? Probably not.

That doesn't mean the parallels aren't raising some red flags.

For starters, the current AI capex boom, which includes investment in data centers, power, equipment and software, is not only the biggest spending splurge since the 1990s. It's also the biggest in history. AI-related capex is expected to reach roughly \$800bn this year, according to analysts at Goldman Sachs and Morgan Stanley, who both recently revised up

their forecasts. The Morgan Stanley team also raised its 2027 AI capex outlook 17% to an eye-popping \$1.12tn.

As a reminder, hyperscalers' capex bill in 2024 was only \$260bn, according to Morgan Stanley.

This massive investment is rapidly whittling away Big Tech's enormous cash mountains. Analysts at PIMCO reckon capex will absorb 94% of hyperscalers' operating cash flows over the next two years, up from 40% in 2023.

This has led to a surge in borrowing. Big Tech's new debt issuance this year is already around \$135bn - more than last year's total - and is set to rise further. AI capex will increasingly be debt-financed. Today's "we can't afford to fall behind" mania is certainly reminiscent of the environment in the late 1990s when aggressive competition and large investment outlays led to significant overcapacity in fiber optic cables, as

Lotfi Karoui, a managing director at PIMCO, points out. After that bubble burst in the early 2000s, it was widely agreed that too much capex had been spent in too short a time, even though internet usage exploded and has never looked back.

Fast forward to today. If demand for AI in the next few years fails to match the mushrooming supply, we'll have a problem - even if AI does end up changing the world. But there are also differences that suggest a repeat of 2000 isn't in the cards.

Firstly, many of the big telecoms in the late 1990s were either barely profitable or actually losing money. As a result, many became very highly levered and were heavily reliant on foreign investment.

The story is rather different today. The balance sheets of AI titans remain quite strong - even after the recent surge in

debt issuance - and their profit margins continue to be sky-high. In fact, the US technology sector is currently one of the least leveraged of all sectors, particularly when zeroing in on hyperscalers. If required, there appears to be ample room for further Big Tech borrowing before the alarm bells start to ring. Let's imagine that 94% of operating cash flows over the next two years are eaten up by capex, as Karoui and his colleagues expect.

That would still be lower than telecom companies' comparable ratio in every year of the dotcom era. Indeed, this figure exceeded 200% and 150%, respectively, in the final two years of the boom.

Equity investors today are also displaying more restraint than they did back then. Tech valuations measured by forward price-to-earnings ratios are well below the peaks of 2000, and

hyperscalers' relative performance against the S&P 500 in this cycle has been much more stable than the Nasdaq's rollercoaster ride in the dotcom era.

"AI is in the midst of a capex boom with genuine risks: Uncertain monetisation, potential overbuild, shortening asset lives, and growing reliance on debt," says PIMCO's Karoui. "But for now, it is a more disciplined and far more financeable cycle than the late-1990s telecom boom." And if the seemingly constant upward revisions to capex forecasts are any guide, this cycle could actually be in its early phase, with plenty more room to run. Legitimate concerns about overinvestment and overcapacity are for the medium term, not today.

■ Jamie McGeever is a columnist for Reuters. The opinions expressed here are those of the author.

Warsh's new challenge: Containing Fed hawks as inflation simmers

Bloomberg
Washington

Kevin Warsh won the race for Federal Reserve chairman partly by mapping out a route to lower interest rates. Now, the new Fed chief faces a starkly different dynamic: How to restrain a sudden shift in expectations for higher rates as fellow policymakers warn that inflation is back.

The challenge was laid bare on Thursday when new data showed the Fed's preferred gauge of inflation rose 3.8% in the 12 months through April. That's the highest level since 2023, and almost two full percentage points above the central bank's 2% target.

Fed watchers say the window for a rate cut has already been shut by the energy shock triggered by the Iran war. That means simply holding rates where they stand may constitute a win for Warsh.

"There is no appetite for cuts," said Stephanie Roth, chief economist at Wolfe Research. "Warsh has to be able to get markets to price out the hikes that they have put in place - that is the biggest challenge for him this year."

How Warsh steers the narrative around rates over coming months could set the tone for his leadership and shape his ability to convince outsiders that he's protecting the Fed's independence. While President Donald Trump has said he wants Warsh to act independently as Fed chair, political pressure to bring rates down isn't far from the surface.

Just hours after hosting Warsh's swearing-in last week, Trump said he expected rates would come down "very quickly."

The shift in the expected rate path comes as energy costs are forecast to remain high for months, even if the Iran conflict ends. Surging investment into artificial intelligence is stoking broader inflationary pressures, too.

All that has prompted a string of Fed officials in recent weeks to warn the central bank can no longer signal that rate cuts are still likely to be their next move. Instead, they prefer to flag the risk



Kevin Warsh, chairman of the US Federal Reserve.

of policy tightening - a dramatic reversal from the start of the year when officials projected additional easing in 2026.

To be clear, the warnings don't mean officials are intent on raising rates any time soon. An end to the conflict in the Middle East would allow policymakers time to assess its impact, while a labor market that remains locked in a cycle of low hiring and low firing weighs against the need for tighter policy.

"We think the bar for hiking rates is higher than the bar for cutting them, even before Kevin Warsh entered the building," said Robert Sockin, chief US economist at PGIM.

Yet it's already evident that inflation has entered a space that few expected at the year's start.

The consumer price index in April rose by the most since 2023, prompting investors to reverse bets from rate cuts to rate hikes. Long-term inflation expectations have taken a hit too.

Looking ahead five to 10 years, consumers expect prices to rise an annualized 3.9%, up from 3.5% in April and the highest in seven months, according to the University of Michigan's consumer survey for May.

"Rather than building a case

for rate cuts, Warsh will now have to spend his energy fending off growing pressure to tighten policy, or at least hold, from colleagues and the public alike," said Derek Tang, an economist at LH Meyer/Monetary Policy Analytics in Washington.

There are other reasons why policy may already be juicing inflation instead of cooling it.

Deutsche Bank Chief US economist Matt Luzzetti warned the Fed may have lowered rates too much in 2024 and 2025, leaving policy too easy. This concern becomes more acute whenever inflation rises because that lifts the level at which policy is considered neutral - neither restricting nor stimulating the economy.

"If you do nothing, you're easing," said Fabio Natalucci, chief executive officer of the Andersen Institute for Finance & Economics, who previously worked at the Fed and the International Monetary Fund.

Most Fed officials consider current policy to be around neutral or still slightly above.

Tension inside the Fed could come to a head at the June policy meeting, when officials could drop the so-called easing bias from their policy statement.

Markets more vulnerable to sharp correction, says Bank of Canada

Bloomberg
Ottawa

The Bank of Canada said the financial system has functioned well through recent global shocks, but highlighted the risk of an asset price correction as well as vulnerabilities related to the role hedge funds are playing in debt markets.

The central bank's 2026 financial stability report released on Thursday noted financial asset valuations have continued to rise, while the stock market is increasingly concentrated in a handful of large tech companies that are heavily invested in artificial intelligence.

That makes asset managers more vulnerable to a sudden correction, and a negative shock to AI sectors would have an outsized impact on broader stock indexes.

The central bank also said that the increased role of hedge funds in overnight funding markets poses a vulnerability to the overall financial system. "A sharp pullback in hedge fund activity in government debt markets, for example, could negatively affect the liquidity and functioning of these markets and other fixed income markets. This, in turn, could generate financial system



Carolyn Rogers, senior deputy governor of the Bank of Canada.

stress," the report said. Senior Deputy Governor Carolyn Rogers said individually, these vulnerabilities look "manageable." "However, the economic and geopolitical environment has become more volatile. And this has made it more likely that a new shock or a combination of shocks could cause several vulnerabilities to crystallise at once," Rogers said in prepared remarks.

The report analyzes risks to the Canadian financial system, but doesn't assign probability and isn't a projection from the central bank.

Meanwhile for households and businesses, the bank said the main financial health vulner-

ability relates to a geopolitical or economic shock that leads to a deep recession and a spike in unemployment. While the central bank previously flagged mortgage renewals as a concern, it noted on Thursday that most borrowers have managed this risk well.

"With the final wave of these renewals set to happen over the next 12 months, we expect this risk to have fully passed by the second half of 2027," Deputy Governor Toni Gravelle said.

While the ratio of household debt to disposable income has increased slightly over the past year, the central bank noted households appear better off when wealth is taken to account.

It attributes that improvement to higher home prices over time, but noted the recent increase in net worth has been driven by gains in financial markets as the housing market softened.

As for Canada's big banks, the report says they have become more resilient over the past year amid higher profitability and healthy capital buffers.

"They have also set aside additional funds to absorb potential loan losses. This positions them to support the economy and financial system, even in a severe downturn," Gravelle said.

Top EU economies vow to speed up financial integration

AFP
Berlin

The EU's six biggest economies vowed on Thursday to set aside differences and speed up integration of their financial markets as the bloc seeks to catch up with the United States and China.

The European Union has been trying for years to bring together its fragmented capital markets, in a bid to provide better investments for EU citizens and unlock more capital for the region's businesses.

The idea languished for years amid bickering between member states, but has been given added impetus as Chinese industry races ahead and ties with the United States sour under President Donald

Trump. German Finance Minister Lars Klingbeil, speaking ahead of talks with five of his EU counterparts in Berlin, said there are "times when we need more Europe - and right now is such a time".

The talks would focus on how "how we can deepen capital markets in Europe, how we can dismantle barriers to cross-border trade, make it easier for investors to invest in Europe, make it easier for European companies to raise capital," he said.

Germany, Europe's biggest economy, "must be prepared to make compromises," he said. "For this, we must look beyond our national horizons if we want a strong Europe."

French Finance Minister Roland Lescure added that greater efforts

were needed "to make sure that European capital stops flying everywhere else, and stays in Europe to finance European solutions for the global problems we face".

"We are doing this for our citizens; we want Europeans to be proud of investing in European companies," he said.

Klingbeil and Lescure were joined by the finance ministers of Italy, the Netherlands, Poland and Spain - a group of countries known as the "E6".

The EU's latest plan to bring together markets is called the Savings and Investments Union, which builds on an earlier project.

But it has been dogged by disagreements, particularly over whether to centralise market supervision.

AI's grip on emerging markets fuels rise in stock-picking ETFs

Bloomberg
London

Large asset managers are rolling out a wave of actively managed emerging-market ETFs, pitching them as alternatives to benchmarks increasingly dominated by AI stocks.

Firms including Pictet Asset Management, T Rowe Price Group and Baron Capital Group this year launched funds targeting companies such as commodity producers and technology suppliers, which they say are underrepresented in widely followed indexes.

The offerings mark a shift from passive strategies tied to the MSCI Emerging Markets Index, which is increasingly driven by a small group of tech stocks, mirroring the concentration in the US.

"There's a whole world of opportunity there" beyond the indexes, said Mark Boulton, senior investment manager for emerging market equities at Pictet, which launched the RISE ETF in late

April. In a passive fund, "probably up to 40% of what you're buying is a handful of very big tech stocks."

While the jury is still out on whether the newly-launched funds can outperform their peers, the trend reflects a broader shift in how investors view emerging markets. Once treated largely as a macro trade tied to China, commodities and the dollar, the asset class has become more differentiated, with a growing pool of investors seeking targeted bets.

All 11 emerging-market ETFs launched this year are run by portfolio managers rather than tracking indexes, according to data compiled by Bloomberg Intelligence, underscoring how issuers are marketing themselves as offering diversification.

In doing so, though, the funds are largely avoiding the big tech stocks that have driven the bulk of the big emerging-market rally. The MSCI EM index has returned 24% this year, with five tech stocks - the biggest being Taiwan Semiconductor Manufacturing Co. -



jumping, on average, more than 70%, according to Bloomberg calculations.

Actively-managed ETFs are costlier than their passive counterparts and, SPIVA data shows, they tend to post weaker returns

over the long term. That's important for investors like Garrett Aird, vice-president of investment management and research at Northwestern Mutual. He acknowledged that the increased index concentration means a passive

strategy doesn't give him broad exposure to the developing world. Still, he's not yet sold on active strategies.

"While passive EM may not deliver what many investors assume it does, the solution to that problem is not automatically an active fund with higher fees," Aird said.

Investor appetite for these strategies, however, is growing. Among all US-listed ETFs, about 90% of new money has flowed into actively managed funds this year through the first quarter, according to BlackRock Inc data.

While emerging markets only captures a sliver of that flow, fund managers are betting investors will increasingly seek out both diversification and overlooked stocks.

"As much as you want the chips exposure, you also have to be careful of how much exposure do I have to that singular group of stocks," said Todd Sohn, chief ETF strategist at Strategas Securities.

T Rowe Price's TEMR ETF is

looking deeper into the semiconductor supply chain to find smaller cap stocks that still benefit from the AI frenzy - rather than side-stepping the AI trade entirely.

"The index is always somewhat backward looking and our research analysts are always forward looking," said T Rowe portfolio manager Leigh Innes. They're looking "to identify the next winners and the next leading edge of the technology."

Baron Capital's BCEM ETF, meanwhile, is focusing on stocks exposed to AI infrastructure, de-globalisation and a weaker dollar - rather than trying to chase broad country allocations.

While at Pictet, the RISE fund's top holdings include banking and commodity companies such as Grupo Financiero Banorte and Petrobras, according to fund documents.

RISE's managers are focusing on countries with expanding working populations and strong economic growth, while excluding China, Republic of Korea and Taiwan.