



**INVESTING PROFESSIONALLY IN
THE MIDDLE EAST**

1. Global and Regional Asset Allocation



Asset Class



Equities



Fixed Income



Commodities

Tactical View (3m horizon)

The fundamental backdrop for equities remains solid given the still-decent growth numbers coming out of the US, Europe and Asia. In contrast, valuations are unattractive following recent record stock market highs, low volatility and lofty price-to-earnings ratios. Therefore; overall a neutral stance to equities seems appropriate.

We expect the yield curve to continue bear flatten over time, i.e. short term rates to increase faster than long term rates on the back of a continuation of good momentum in the US economy which would usher the Fed to proceed with rate hikes while at the same time inflation is only slowly creeping up.

Oil is still in center stage with OPEC and non OPEC countries maintaining production cuts and oil supply disruption due to the Iran deal has fueled a moderate rally. We prefer to stick to the more conservative market consensus of \$55-60 range, with potential for upside surprise.

Mashreq Capital View:  Positive view  Neutral view  Negative view

Regional Asset Allocation

Region / Country



GCC

Region / Country



Bond spreads supported by an increase in oil prices, however, UST yields uncertainty has softened demand for EM paper in general

Region / Country



Index inclusions in focus will support KSA and Kuwait markets higher.

Region / Country



De-pegging risk has been selectively revived (example: Bahrain and Oman)



North Africa



Short dated bonds provide value for carry positions while we see varying degrees of improving economies



CBE's monetary easing is supporting equities and this is expected to continue.



EGP to remain in a band



Turkey



Volatility is back and Turkey is one of the first names to get sold off, prefer corps over sovereign



Sensitive to US hikes & political risks



Carry trade, outflows and inflation continue to pressure currency

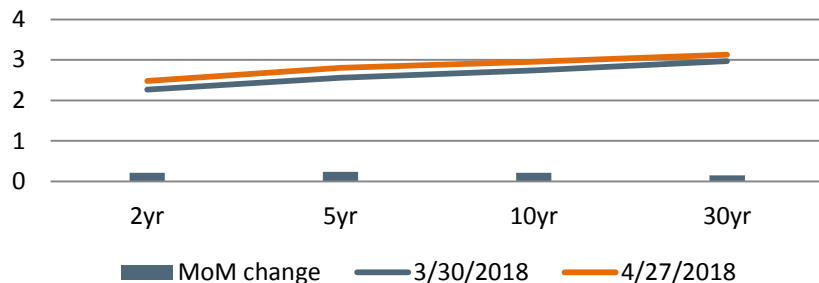
Mashreq Capital View:  Positive view  Neutral view  Negative view

2. Fixed Income

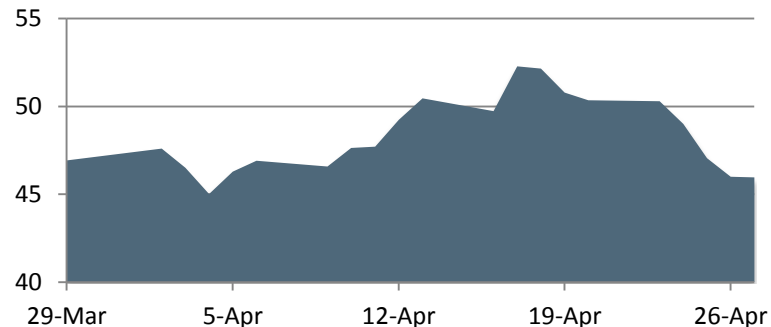


Fixed Income - Markets

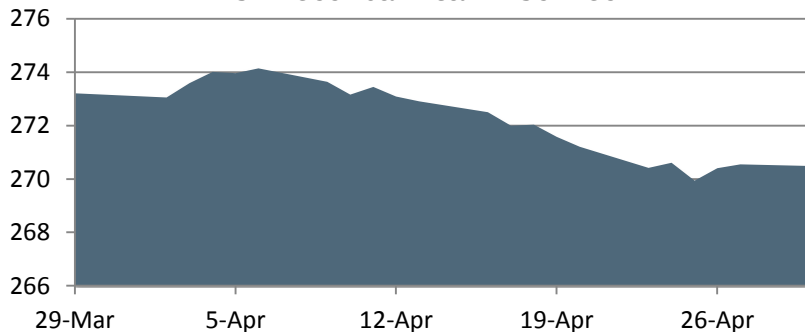
US Yield Curve



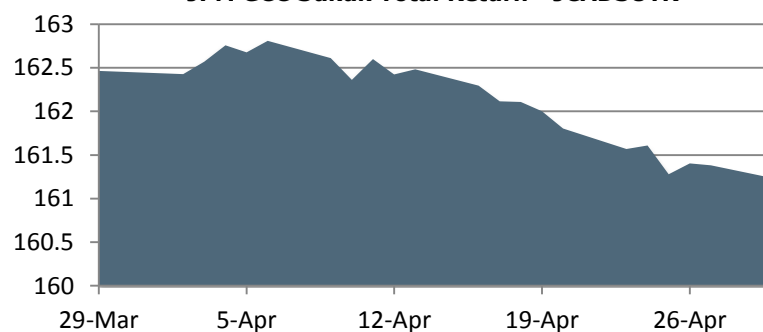
GCC spread over EM



JPM GCC Total Return - JCADGCTR



JPM GCC Sukuk Total Return - JCADSUTR



Where we Stand

April was a rollercoaster of a ride with regards to volatility. The highlight of which was not the Core PCE data, GDP data or the FOMC meeting but the sanctions levied on Russian individuals and businesses by the US Department of Treasury. There were a few issuers that came to market at the beginning of the month such as Damac, KSA, Qatar, Taqa and Egypt (EUR denominated bonds). We started the month on a fairly positive note, with majority of the new issues trading up, however, that did not last long as negative sentiment was widespread in the market on the back of wider EM outflows.

Internationally no credit was spared in the sell off, casualties included Turkey, Russia, Indonesia and Argentina where we saw sovereign bonds sold off aggressively and local currency took a nose dive as the USD strengthened. Having said that, comparatively speaking, corporates held up relatively well. Noticeable resilience was mainly in the regional perpetual space.

Makaseb Income Fund returned -1.45% and the Mashreq Al-Islami Income Fund returned -0.65% YTD, outperforming respective benchmarks by 95bps and 111bps.



















Outlook

We expect volatility in spreads in the near-term with US inflation and labor market data to act as key catalysts for rates. Additionally, the UST yield curve seems relatively flat and we expect some steepening only if inflation starts to trickle to the broader economy. Regional markets are expected to take a breather as the holy month of Ramadan starts in mid May with a lack of new issues. We continue to favor short duration high yield names.

3. Equities



Regional Equity Strategy

Sector	GCC	North Africa	Turkey
Banks			
Consumer Goods			
Real Estate			
Telecommunications			
Materials			
Utilities			

Mashreq Capital View:  Positive view  Neutral view  Negative view

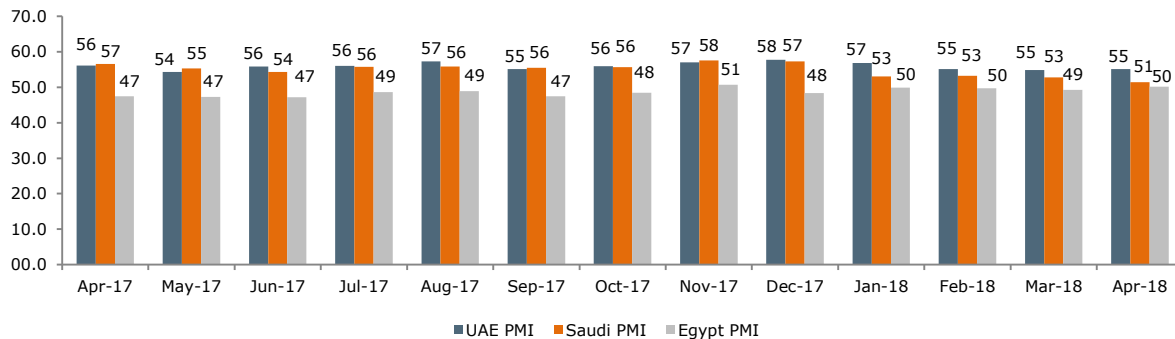
Where we stand

- MENA continued the gains from March with the index finishing up 3.0% as investors continued to buy index related names. Saudi continued to be the focal point of investor interest while Egypt also performed very well. Additionally, oil prices were supportive finishing up 8.1%. MENA markets are up 10.6% for the year outperforming Emerging Markets, which are up 0.9% YTD.
- In Saudi, the market jumped by 4.3% led by large-caps, mainly banking and petrochemicals but also select names that are likely to be included in FTSE EM's index. The market is up 13.5% YTD.
- Egyptian shares (Hermes Stock Market Index) were up 4.7% for the month (similar in USD terms) as interest rate cuts support valuations higher through decreased cost of capital. The market is up 21.0% YTD.
- While Qatar had a strong month finishing up 6.3% as FOL increases were implemented. The market is up 6.9% YTD.
- UAE had another weak month finishing down 0.2% as participants shift from UAE to Saudi, Egypt and Kuwaiti indices. The UAE overall index is down 2.0% YTD.
- While the FTSE EM inclusion for Kuwait in 2 phases is a positive, the market 'sold the news' finishing down 4.8%. The market is up 0.9% YTD.

Outlook

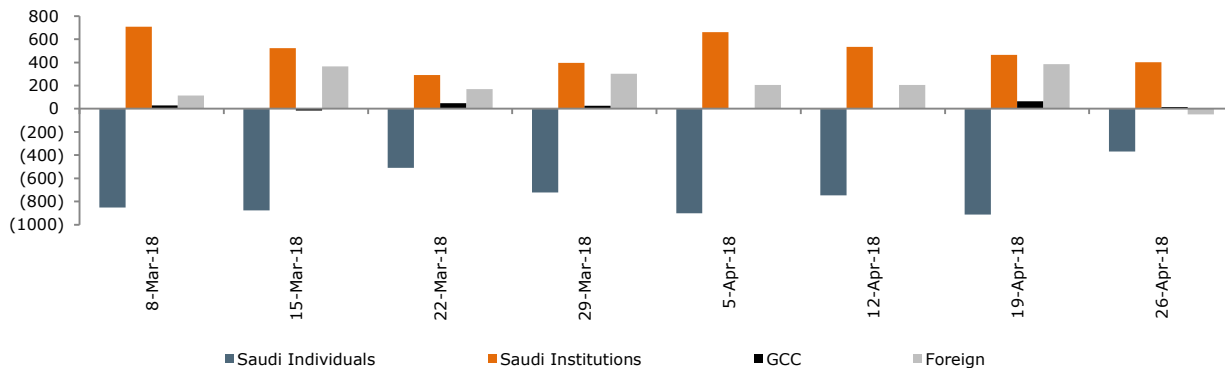
- In Saudi, the markets will continue to look forward to MSCI's decision in June, which should also be a positive decision although not the same probability as FTSE. We expect the market to be positive, nevertheless.
- In Egypt, markets will continue to look forward to inflation data to judge the path of interest rate cuts. There's one more inflationary data points before CBE's May 17th meeting. We believe market will continue to be supported by decelerating inflation and lowering interest rates
- Qatar will remain in a consolidation pattern as there are limited catalysts on the horizon save from liquidity injections from the government.
- With oil prices above USD 60/bbl and Expo 2020 investments beginning, we expect UAE markets to perform well.
- Similar to Saudi, the focus of Kuwait will be on MSCI's decision to include Kuwait on the EM watch list. Having said that, we are not holding our breath. Nevertheless, the market will be buoyed by the FTSE decision to include Kuwait in 2 phases.
- Global markets continue to show volatility. We continue to see no material change in global economic fundamentals, however, the market's recent volatility may be a sign of investors front running economic weakness.

Purchasing Managers Index



Contrary to higher oil prices and an expanding budget, Saudi Arabia's PMI dropped 1.4 points in April and below the record low it registered in March on softer production growth and job creation. UAE saw its PMI inch up while Egypt's reading increased by 1 point.

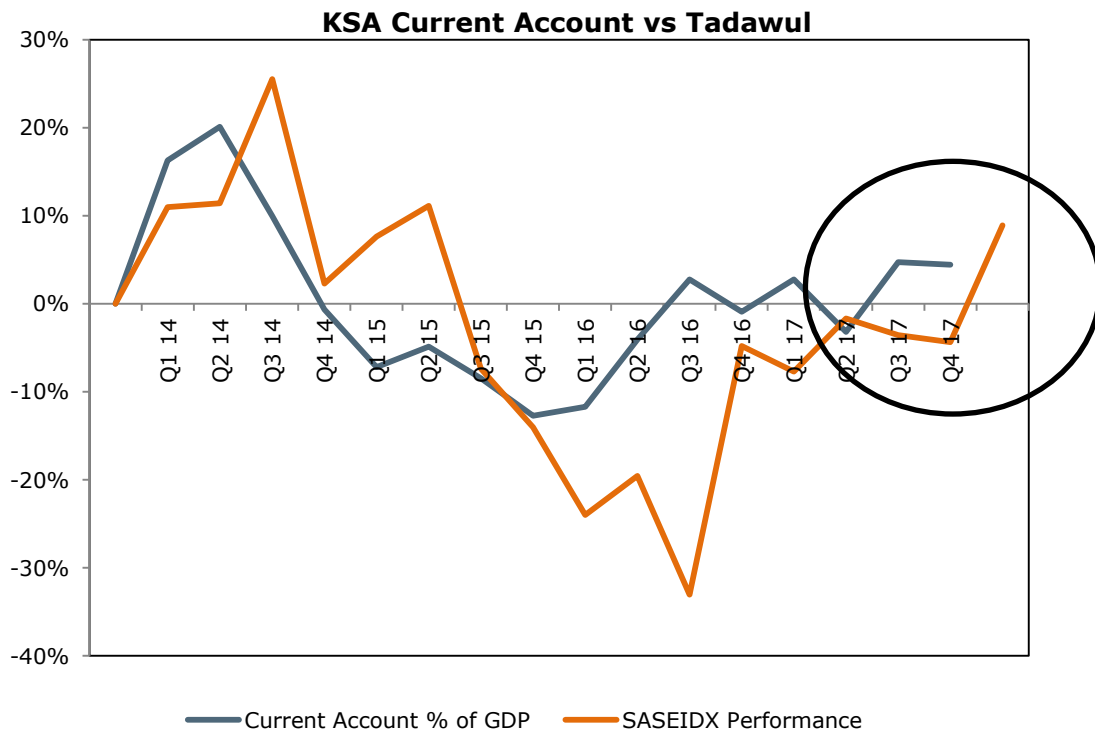
Saudi Trading Analysis



During the last week of April, net selling by Saudi Individuals was at its lowest point since December 2017, this could signal a change in behavior as the decision for MSCI inclusion approaches (June).

Source: Tadawul

Equities – Chart of the Month



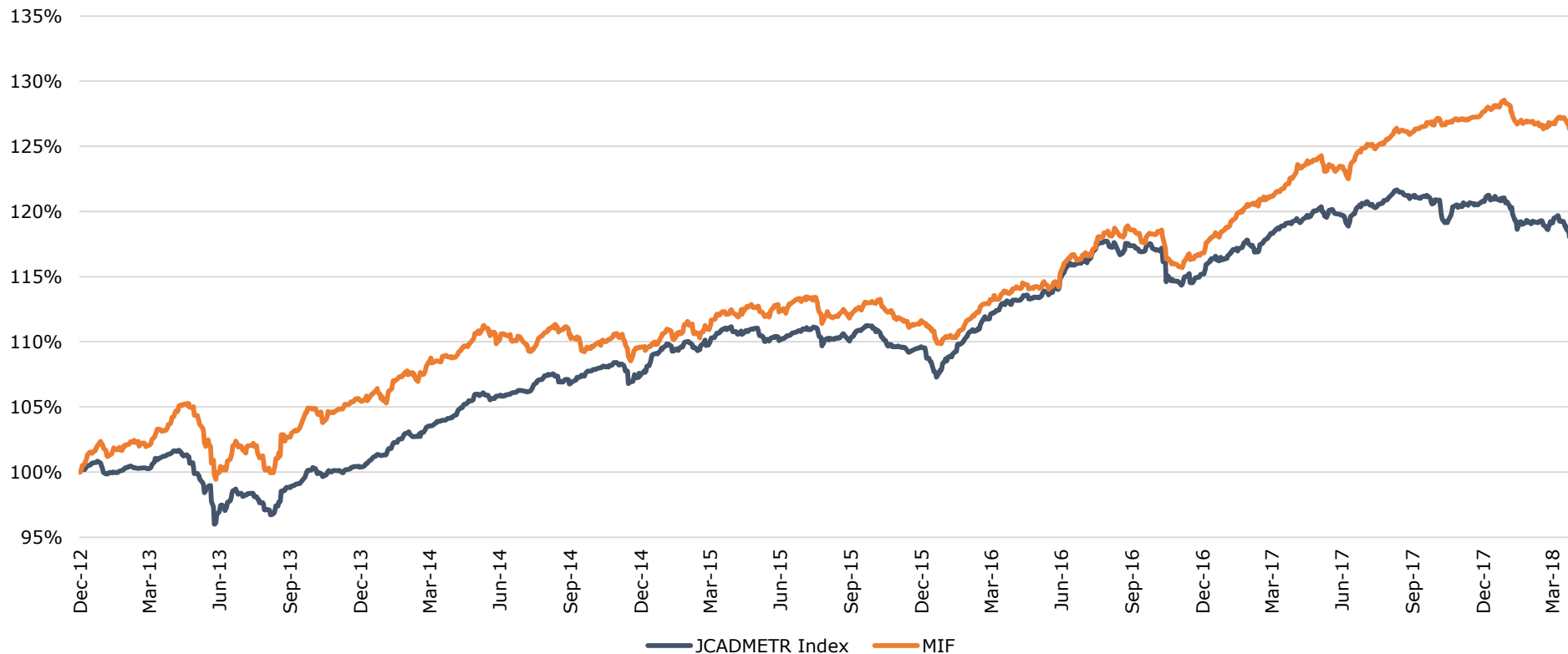
A turn in the current account deficit is often a leading indicator for the equity market performance. Saudi market is expected to outperform giving the increase in oil price.

Source: EFG Hermes

5. Mashreq Capital Fund Performance



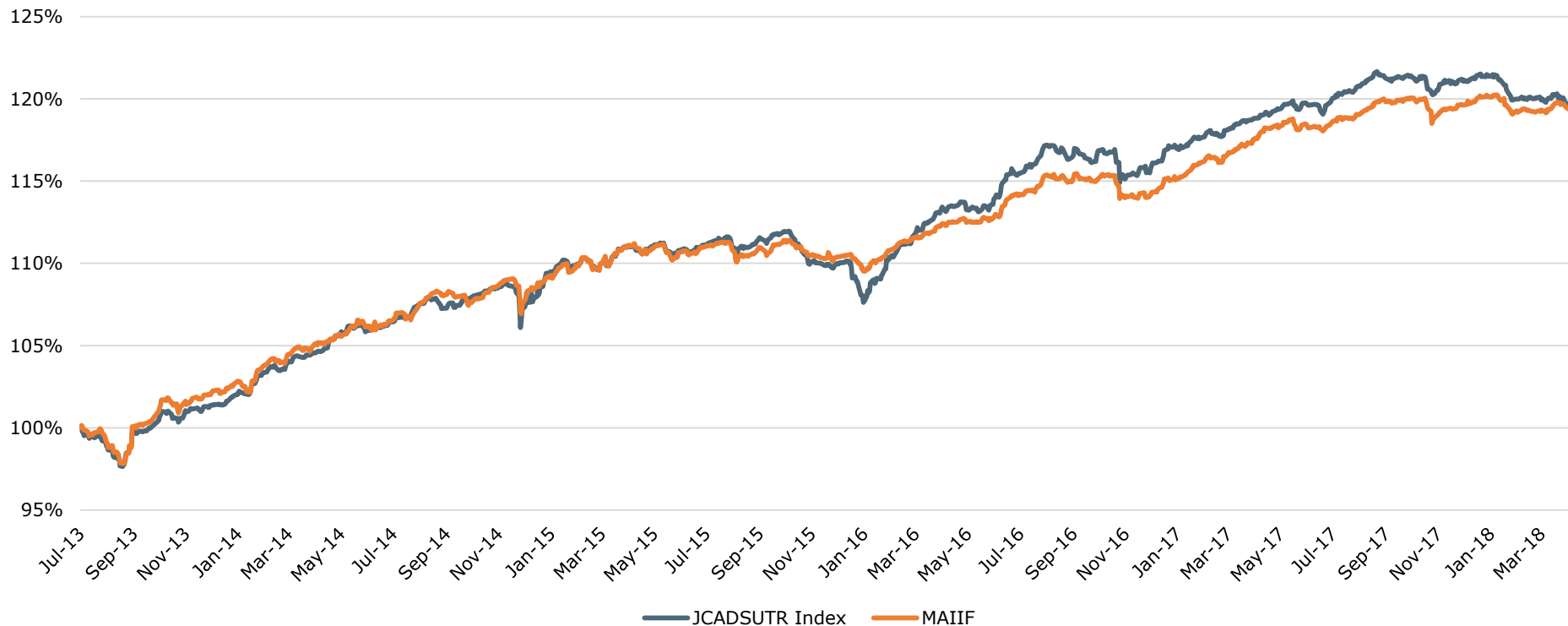
Makaseb Income Fund Vs. Index



Note: Fund performance has been rebased as of 31st December, 2012. The fund was benchmarked against HSBC Nasdaq Dubai ME index until 31st December, 2013. On 1st January, 2014 the benchmark was changed to JP Morgan MECI Index (BB TICKER: JCADMETR). All historical benchmark performances have been replaced to that effect.

Source: Mashreq Capital

Mashreq Al Islami Income Fund Vs. Index

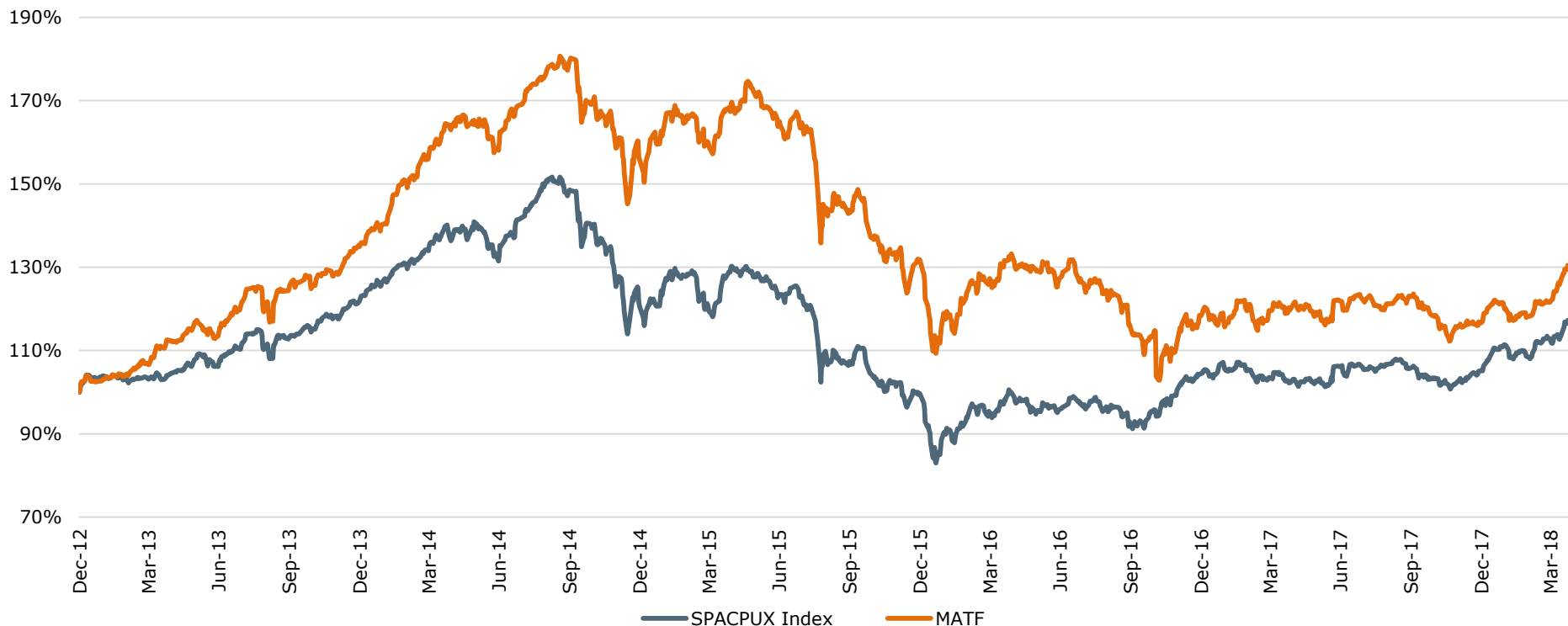


Note: Fund performance has been rebased as of 21st July, 2013. The fund's benchmark effective January 2017 is JP Morgan Middle East Sukuk Index (BB TICKER: JCADSUTR).

All historical benchmark performances have been replaced to that effect.

Source: Mashreq Capital

Mashreq Arab Tigers Fund Vs. Index



Note: Fund performance has been rebased as of 31st December, 2012. The fund was benchmarked against MSCI Arabian Market Index until 29th September, 2010. On 30th September, 2010 the benchmark was changed to S&P Pan Arab Composite Large Midcap Index (BB TICKER: SPACPUX). All historical benchmark performances have been replaced to that effect.

Source: Mashreq Capital



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