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CAPITAL

INVESTING PROFESSIONALLY IN THE MIDDLE EAST

Monthly Outlook – August 2019

1. Global and Regional Asset Allocation

Global Asset Allocation

Asset Class	Tactical View (3m horizon)
Equities (Neutral)	The positives of trend-like growth and renewed central bank easing are countered by expensive stock-market valuations and the potential re-escalation of the trade war, leading us to a balanced outlook on equities.
Fixed Income (Neutral)	The central bank race-to-the-bottom in the US, Europe and Asia is allowing EM central banks breathing room to tailor monetary policy to domestic economies, providing a supportive backdrop for EMD.
Commodities (Neutral)	With the renewed tension in the strait of Hurmuz, we think oil should stay within the $60-$70 range. On the downside, uncertainty caused by the ongoing trade war between the US and China should pressure oil price. For the next 3 months, we think oil price direction will be largely decided by shale additional pipeline capacity that should inject +2mb/d to 2.6mb/d in the market.

Mashreq Capital View: Positive Neutral Negative

Regional Asset Allocation

Region / Country	Fixed Income	Equities	FX
 GCC	Bond spreads continue to be supported by the YTD jump in oil prices & the ongoing GCC EMBI inclusion theme.	Index inclusions in focus will support KSA and Kuwait equity markets.	De-pegging risk has been temporarily averted, albeit remains a risk selectively (for example, Bahrain and Oman).
 North Africa	Long-dated sovereign bonds provide value for carry positions while we see varying degrees of improving economies.	Earnings growth is positive and the market is cheap, also will benefit from the recovery in the EM.	EGP to remain in a band.
 Turkey	Institutional credibility weakened further following the appointment of a dovish central bank governor by Erdogan at a time when Turkey needs restrictive monetary policy, rather than easing.	Main beneficiary from the recovery in EM and also the monetary easing in the US.	We expect continued volatility with the lira in 2H2019.

Mashreq Capital View: Positive Neutral Negative

2. Global Portfolios

Global Assets – Monthly Commentary

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Overview

DM Equities (+0.5%)

Global equities continued their solid run with the S&P 500 reaching a new all-time high during July.

EM Equities (-1.2%)

EM stock markets lagged their DM peers during July with China, Russia and India all enduring a loss over the month.

DM Fixed Income (-0.3%)

Treasuries delivered mixed returns with US government bonds positing a minor loss in contrast to modest gains for European sovereigns.

EM Fixed Income (+1.2%)

Renewed dovish rhetoric from central banks continued to provide a tailwind for EMD to post strong returns.

+ Positive Returns / – Negative Returns

Outlook

The positives of trend-like growth and renewed central bank easing are countered by expensive stock-market valuations and the potential re-escalation of the trade war, leading us to a balanced outlook on equities.

Chinese policy stimulus combined with decent valuations are appealing attributes for EMs, though the still-unresolved trade tensions again lead us to a neutral standpoint on the asset class.

The central bank race-to-the-bottom in the US and Europe is likely to continue to be a powerful downward force on yields, especially as we enter the notoriously volatile summer month of August.

The market-friendly mix of slowing yet above-trend growth, benign inflation & accommodative central banks continues to provide a supportive backdrop for EMD.

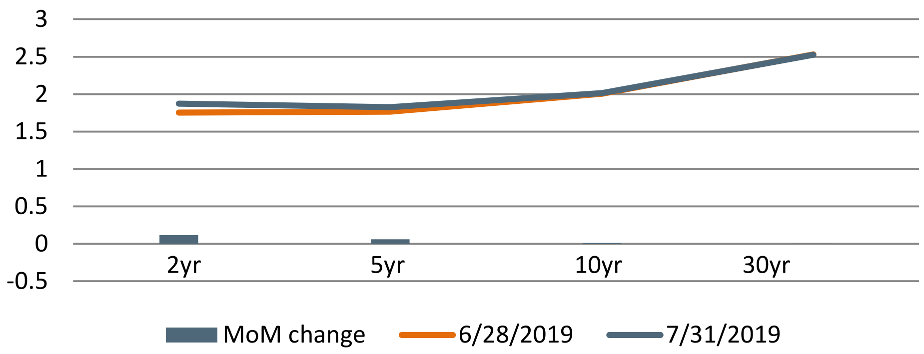
Positive Neutral Negative

Source Morningstar: DM Equities = MSCI World Index; EM Equities = MSCI Emerging Markets Index; DM Fixed Income = Bloomberg Global Aggregate Index; EM Fixed Income = JP Morgan Emerging Market Bond Index. Overview figures are monthly, unhedged US dollar returns. Outlook forecasts are based on a 3-6 month timeframe.

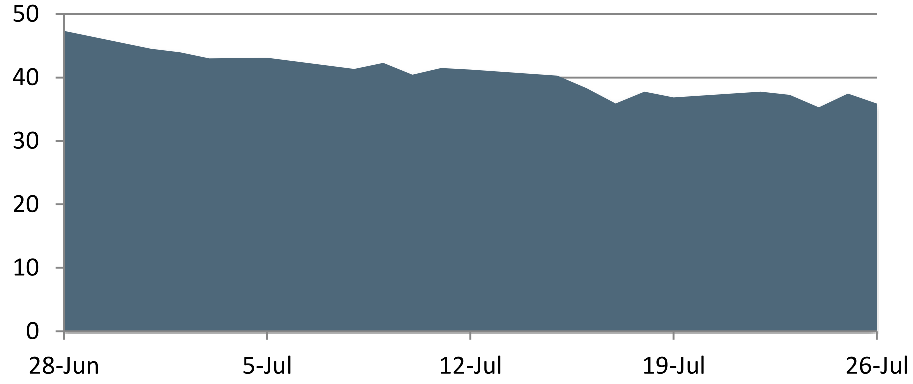
3. MENA Fixed Income

MENA Fixed Income - Markets

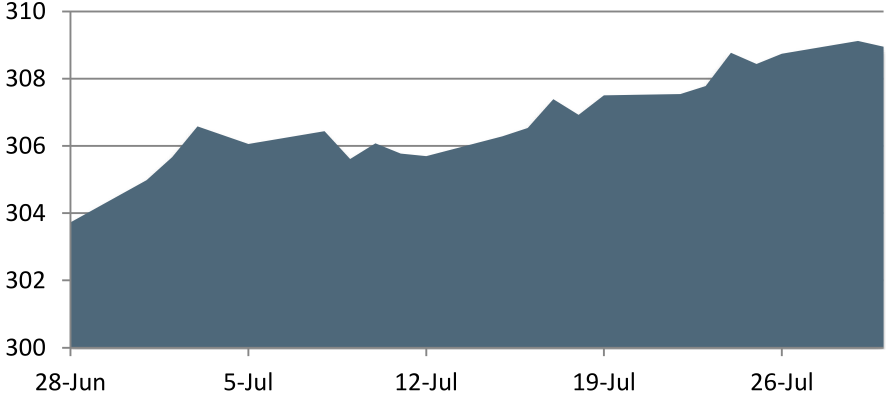
US Yield Curve



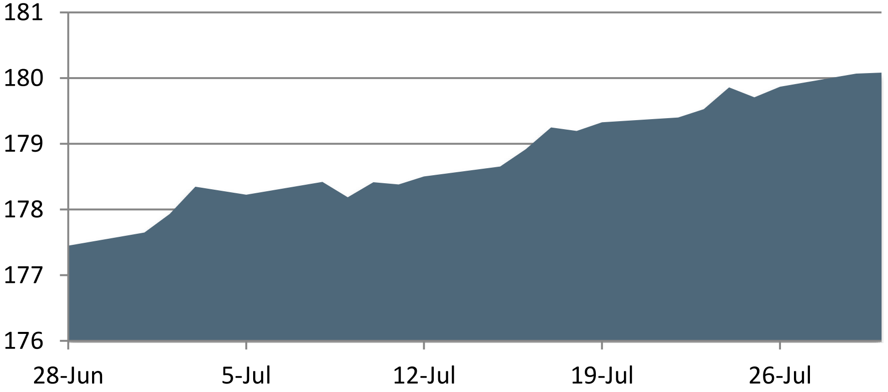
GCC spread over EM



JPM GCC Total Return - JCADGCTR



JPM GCC Sukuk Total Return - JCADSUTR



Sources: Mashreq Capital, Bloomberg

EM Fixed Income – Monthly Commentary

Overview

EMD continued its recent run of form in July with the global EMBI up 1.2%. The global benchmark's return was bettered by the Middle East index's gain of 2.1%.

EM bonds benefited from central banks' continuing the YTD trend of monetary policy easing in July. Turkey for example, cut rates by a hefty 425 basis points, much more than the consensus forecast. The sizeable cut was likely influenced by Erdogan appointing a new central bank governor who is more amenable to the President's accommodative monetary policy stance. Russia was another big EM constituent to cut in July for the second month in a row, though its modest 25 basis points reduction was in line with forecasts.

New sovereign issuance came from Saudi Arabia in EUR and Turkey tapping the market for a 5-year USD. Local corporate issuance centered on the investment grade offering from Emirates Strategic Investment Corporation and the high yield Global Education Management System (GEMS). The popular UAE education provider issued at an expensive level in our opinion.

Oil finished the month where it began at around $65 and has averaged a similar level for the year so far, despite the commodity's customary volatility. A $65 average oil price is a comfortable level for most GCC oil exporters.

Outlook

EM bonds continue to be one of the biggest beneficiaries of DM central bank policy easing. Investors are flocking to EMD given the increasing number of negative-yielding sovereigns from Germany to Japan as a result of renewed dovish rhetoric from the Fed to the ECB.

Investors were forced to wait until the last day of the month for the main event of July when the Fed cut rates by 25 basis points as we had forecasted in our prior monthly outlooks.

Despite Powell's insistence that the reduction was a mid-cycle insurance cut given the still-decent US data, we think there could be two more rate reductions before year-end given that the ex-US data is in much worse shape.

Falling rates in Europe and Asia could force the Fed's hand. The ECB President Mario Draghi used his July press conference to indicate further accommodation is coming from his successor Christine Lagarde, one of the most vocal doves on the global stage.

The central bank race-to-the-bottom in the US and Europe is allowing EM central banks breathing room to tailor monetary policy to domestic economies. We envisage further rate cuts by EM central banks in the second half of 2019 due to well-contained inflation pressures complemented by still-robust growth outlooks.

4. MENA Equities

MENA Equity View

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

Mashreq Capital View: Positive Neutral Negative

MENA Equities – Monthly Commentary

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Overview

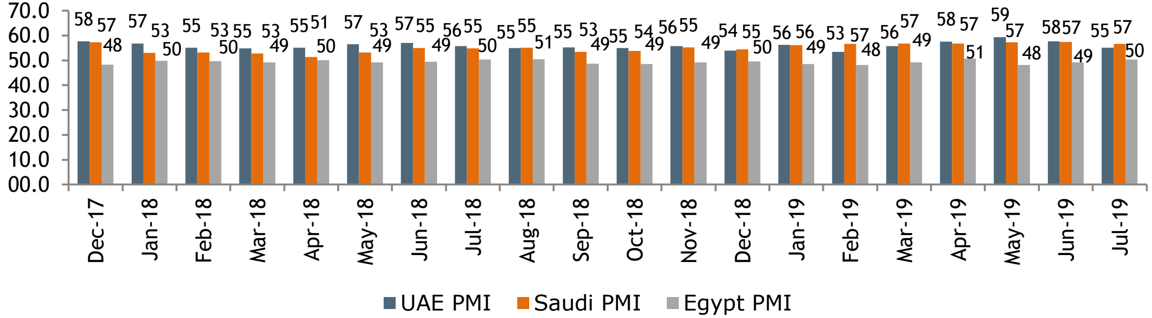
- MENA remained slightly up in July by 0.5%, led by the UAE and Kuwait. This was despite weak oil prices which declined by 2.1% over global growth concerns. MENA markets are up 10.6% for the year outperforming Emerging markets, which are up 7.4% YTD.
- In Saudi, the market dropped by 1.0% on lackluster earnings season and geopolitical concerns. Also, valuations have become stretched which led to some profit booking. The market is up 11.6% YTD.
- Egyptian shares (Hermes Stock Market Index) fell 5.8% for the month (down 4.99% in USD terms) on weaker volumes in summer. A decrease in subsidies is expected to halt CBE's ability to cut interest rates for the interim. The market is down 0.7% YTD.
- The Qatari market continues its sideways journey in absence of any real catalysts and finished slightly up by 0.5% in July. The market is up 2.0% YTD.
- The UAE finished strong up 8.4% and a key outperformer in MENA on FOL increase implementation expectation coupled with positive China news on real estate side boosted the investor sentiment. The UAE overall index is up 8.5% YTD.
- In Kuwait, the market continues to remain strong and finished July up 5.8% in anticipation of MSCI index inclusion. The market is up 28.0% YTD.

Outlook

- In Saudi, we expect the weakness to continue as we become closer to the end of MSCI inclusion event and valuations look expensive which could weigh on the performance.
- In Egypt, inflation data is expected to ease despite additional utility and fuel subsidy cuts, due to high base effects and a stable currency. The CBE should further cut interest rates (expect 100bps) in 2019 after a surprise rate cut of 100bps in February 2019 and help sustain the rally.
- Qatar does not have any catalysts or major risks on the horizon. In terms of valuation, the market is in line with its 5 year average P/E at 14.8x TTM – as a result we see limited upside in this market.
- We expect the UAE market to trade positive on the back of FOL increase expectation and some relief in real estate sector post incremental interest shown by Chinese investors in UAE market.
- With Kuwait being added to MSCI EM's watch list, the market is likely to remain buoyant.
- Global markets are expected to remain weak despite FED's rate cut in July (25bps), however, signaled a more dovish approach going forward, also with US implementing new tariffs on $300bn of imports from China, effective September should weigh on global markets.

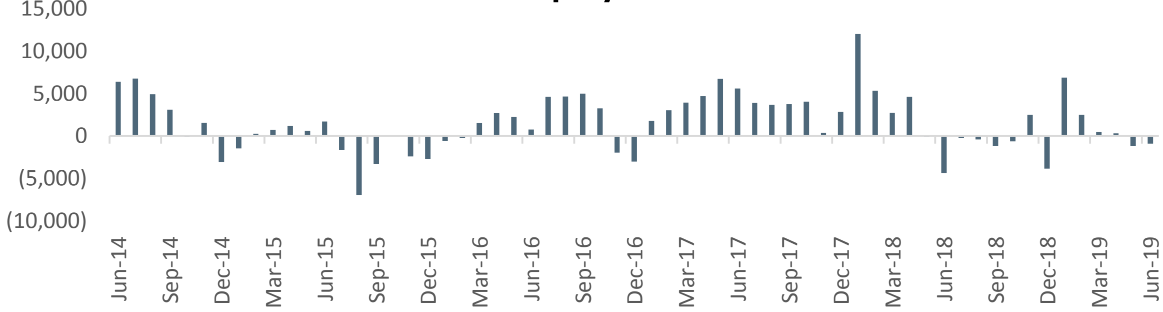
MENA Equities

Purchasing Managers Index



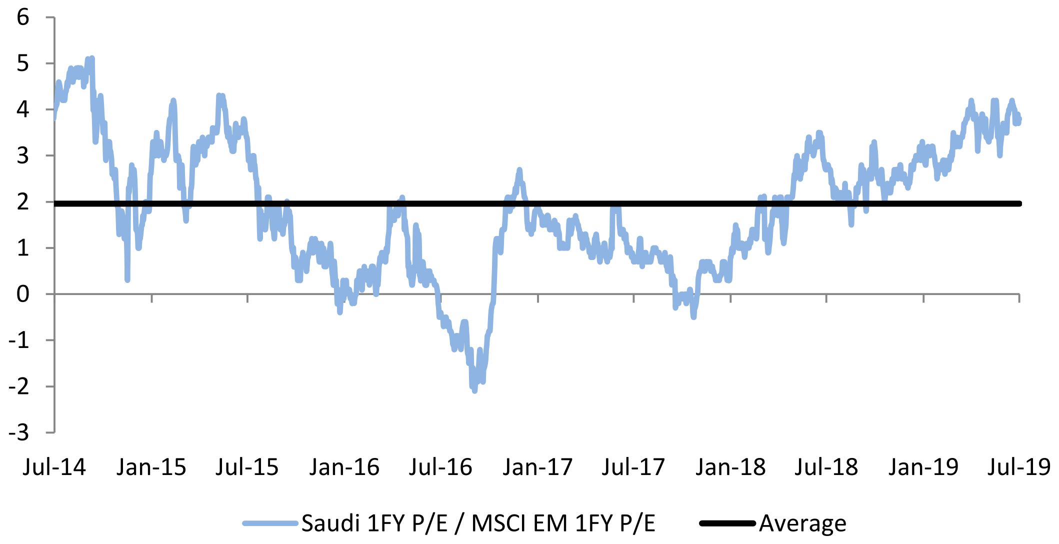
UAE PMIs after posting recent highs of 59.4 in May decreased consecutively for second month in July to 55.1 on the back of weaker new orders and Saudi PMIs also decreased to 56.6. Egypt's PMI on the other hand increased to 50.3.

EM Equity Funds Flow



June saw a net outflow of USD0.9bn vs. net outflows of USD1.2bn in May, in Emerging Market Equity Funds.

MENA Equities – Chart of the Month



Falling GAP: Saudi shares retreating after reaching the highest premium in July'19 to EM peers, since 2015, as we reach closer to the end of the MSCI inclusion.

Sources: Mashreq Capital, Bloomberg

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