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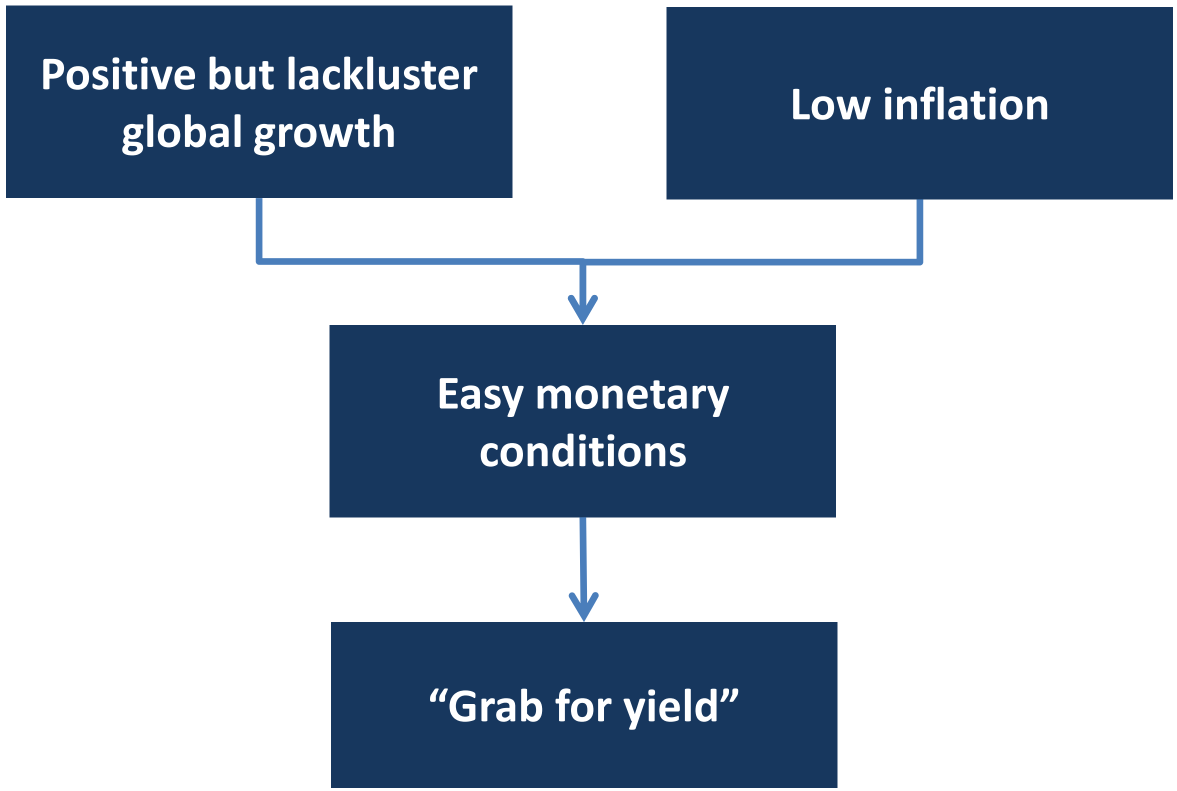
Asset Management

Investing Professionally in the Middle East

Investment Themes

Our fundamental research highlights the following investment themes on a 3 month horizon:



Investment Themes - Details

Positive but lackluster global growth without inflationary pressures:

- Global trade growth subdued with ongoing overcapacity in certain sectors.
- Range-bound oil price: shale-gas caps the upside at around US$50-55 and demand growth supports prices at around US$35-40.

Major central banks will only tighten very cautiously (USA) or not at all :

- Episodes of financial volatility likely to be short-lived. Investors are pushed towards riskier assets.

GCC: economies adjusting to the lower oil prices:

- Tighter fiscal policy with capital spending slashed, subsidy cuts and introduction of new taxes.
- Demand growth under pressure, especially discretionary items.
- Budget deficits to be financed partially by debt issuance. This will offer opportunities to capture new issue premia.

Asset Allocation Views:

- Environment beneficial for fixed income in general while sector selection is key for equites.
- Assets which still offer some yield in a low–return environment will benefit. EM, GCC fixed income and dividend return strategies will probably do well.
- We seek to extend duration in UAE and Qatar and, opportunistically, in Kuwait and Saudi Arabia.
- In equities, subdued consumer demand in GCC countries drives us to underweight this sector.
- We are underweight growth stocks and overweight high-dividend stocks.

Strategic Biases – Major Asset Classes

Our strategic top-down views on a 3 month horizon:

Region / Country	Credit Spreads	Equities	Currency
GCC	New issuance a buying opportunity, RV in global context	SA to outperform rest of GCC	
North Africa	Benefit from high yield in EM context	Egypt to outperform after FX devaluation	EGP devaluation expected
Turkey	Challenging political situation will cap potential for spread tightening	Sensitive to US hikes & political risks	
India & SE Asia			

positive neutral negative

Strategic Biases – MENA Equities

Our strategic top-down views on a 3 month horizon:

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

↗ positive → neutral ↘ negative

Fixed Income - Monthly Comment

Where we stand

While the total return during October was largely flat we have had a busy new issue calendar. The highlight has been the highly anticipated Saudi issuance which was launched successfully and did not disappoint expectations. With an order book in excess of US$67bn the issue size of US$17.5bn across three tranches was well absorbed by the market and secondary prices traded up.

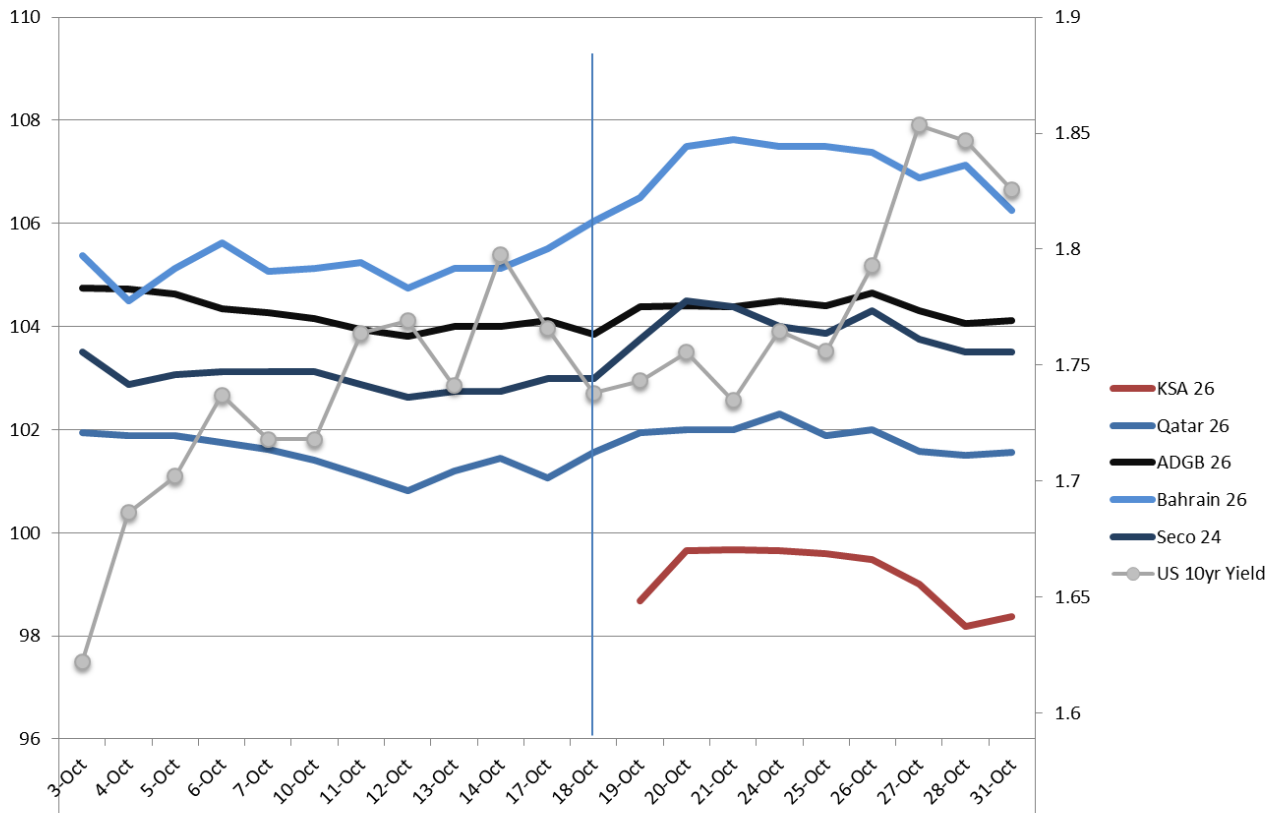
The successful launch pulled up the rest of the market but headwinds from US treasuries erased most of the gains. The market showed resilience though and ended up with tighter spreads.

Outlook

For the remainder of the year we have a busy calendar in terms of events which will come at a time when liquidity is traditionally low: FOMC and NFP early November, followed by US elections, OPEC meeting at the end of November, then beginning of December referendum in Italy and finally mid-December the last FOMC meeting of the year with a likely rate hike.

In our base case we continue to see a supportive environment for fixed income, however given the time of the year and the busy schedule we will tend to be more defensive and only engage if opportunities arise. Recent steepening in the US yield curve also needs to be watched carefully.

Fixed Income Chart of the month – Market Impact of Saudi New Issue



In October we finally saw the much anticipated issuance from Saudi. The initial price guidance was published on 18 October (blue vertical line) and came at the lower range of expectations. The effect was that the rest of the market started repricing to tighter spread levels. Bahrain and Seco, in particular, traded up strongly.

After the initial euphoria, though, the weakness in the US treasury market (see grey dotted line) translated into weaker GCC markets.

Sources: Mashreq Capital, Bloomberg Nov. 2016

Equities - Monthly Comment

Where we stand

- As expected, the oil price rally following the OPEC agreement to cut/freeze production has been limited to prices just over USD 50/bbl before pulling back. The market awaits further clarity on individual quotas, whether or not Iran or Iraq will participate. Having said that, rhetoric from OPEC is that they're confident on an agreement. The market, on the other hand, has become skeptical as of late that a positive outcome will be reached.
- In other news, the Saudi government tapped the debt market raising USD 17.5bn, significantly more than expected. Consequently, the equity market has done very well finishing up 7% for the month and up 10% since the bond issue. Saudi Arabian Monetary Agency (SAMA) put new measures in place to shore up liquidity for the banking sector including issuing less debt from local banks as well as introducing a 90 day REPO facility. Saibor has reacted positively dropping 6bps.
- Qatar and UAE, like Saudi in the summer, have weakened as we believe equity participants are taking their profits for the year and reallocating to Saudi. In Egypt, the market has risen almost 7% in October as the devaluation scenario approaches.

Outlook

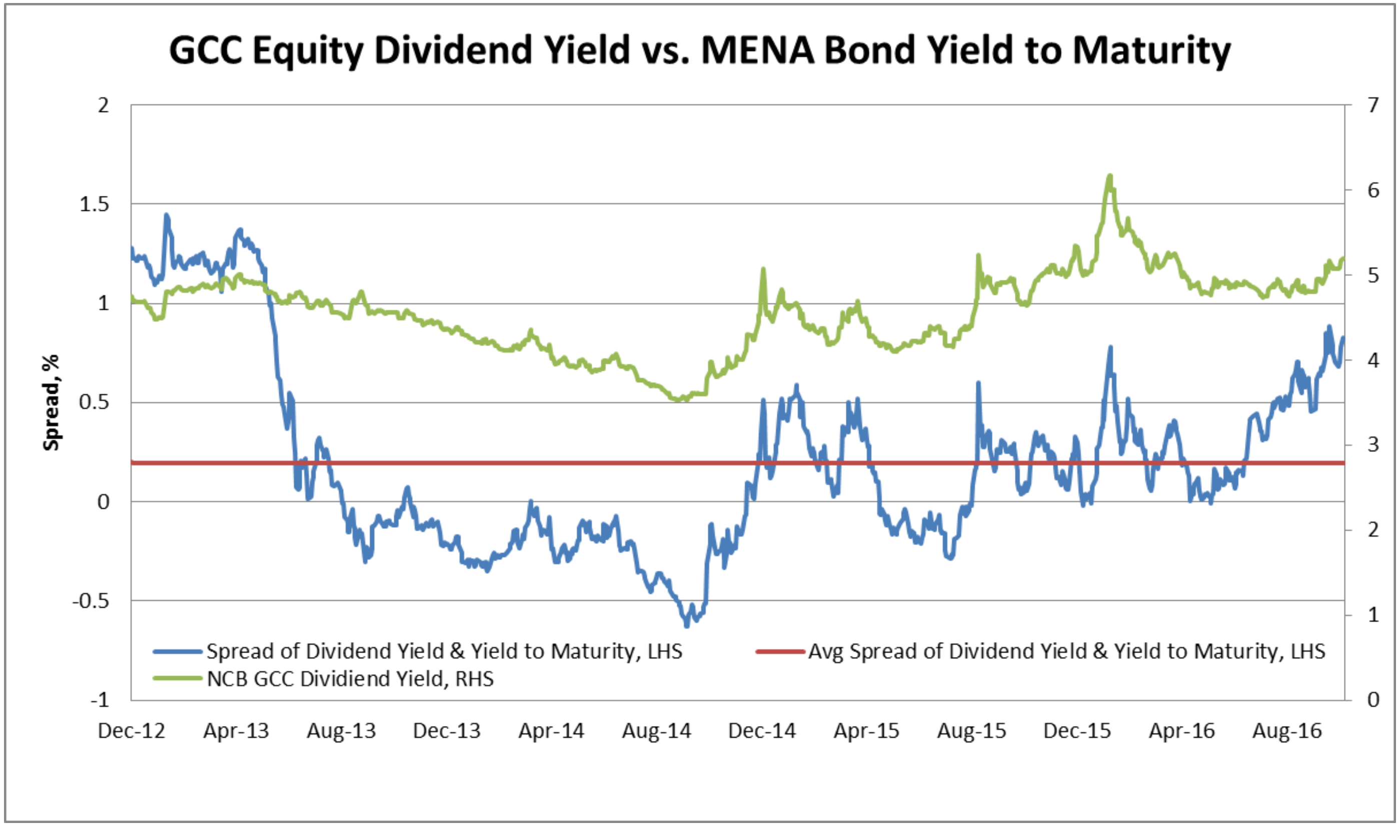
- While fundamentals in Saudi are weak and continue to weaken, we will not underestimate an easing in liquidity as a potential reversal sign in the economy especially at current valuations. We await for a positive OPEC outcome, which will dictate the direction the 2017 Budget will go at the end of December.
- The Central Bank of Egypt is expected to float their currency in November. This is a widely anticipated event that will be taken positively by the market. However, following such a move, economic reforms will need to be properly enforced for the investor community to continue to be positive on the economy and financial markets.
- Despite Qatar being added to the FTSE EM index, the market corrected 11% since end of August. Nevertheless, as investors shift from active to passive funds, Qatar is will positioned to benefit from this trend as the country is under owned by foreigners.
- We believe UAE markets are attractive following their 7% correction since August as the market has been dropping as investors take profits. This presents a good opportunity to accumulate the market.

Equities - Monthly Chart

Attractive entry point?

The graph on right shows that on a relative basis, dividend yielding equities are more attractive than bonds.

Additionally, on an absolute basis, the graph reveals we could be at an entry point. Having said that, all bets will be off if we see more than a 10% cut in DPS, which has already fallen 12% from its highs.



Source: Bloomberg prices as of October 31st 2016

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