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CAPITAL

INVESTING PROFESSIONALLY IN THE MIDDLE EAST

Monthly Outlook – September 2019

1. Global and Regional Asset Allocation

Global Asset Allocation

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Asset Class	Tactical View (3m horizon)
Equities	The positives of trend-like growth and an increasing central bank dovish stance are countered by an overbought market, reducing corporate profitability. Escalation in the trade conflict and some disappointing economic data releases in Europe and China leads us to a neutral outlook on equities.
Fixed Income	Growing trade tensions, Brexit related uncertainty and the recession looming over the European economy will continue to weigh on the markets and central banks around the world are racing to the bottom to revive the sluggishness in growth. Flight to quality will continue but the abundance of liquidity will provide support to EM Debt with EM USD Investment Grade being a preference.
Commodities	The trade war saga between the US and China has extended its scope to include tariffs on US-oil for the first time. Disappointing data releases, leading to slowing growth concerns are applying some downward pressure on the oil price. However, we think oil should stay within the $60-$70 range due to the supply control measures taken by the OPEC+.

Mashreq Capital View: Positive Neutral Negative

Regional Asset Allocation

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Region / Country	Fixed Income	Equities	FX
 GCC	GCC Bonds still offer wider credit spreads relative to similar EM rated peers. Longer duration IG will be in focus	The Saudi story has come to an end. The UAE, Kuwait and Egypt are our top 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, it should benefit from the rate cuts.	EGP to remain in a band.
 Turkey	Improving economic data in Turkey provides support for the sovereign although FX weakness remains a key challenge.	It could be the main beneficiary from the monetary easing in the US.	We expect continued volatility with the lira in 2H2019.

*Downgrade in MC rating from last month.

Mashreq Capital View: Positive Neutral Negative

2. Global Portfolios

Global Assets – Monthly Commentary

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Overview

DM Equities (-2.1%)

A surprise escalation of trade tensions, increasing Brexit concerns and the worrisome economic consequences triggered the sell-off in August.

Outlook: Global growth will continue to face headwinds from a downturn in the industrial cycle. Muted inflation trends globally will continue to drive the dovish stance taken by central banks. Expensive valuations and reducing corporate profitability drives our neutral stance.

EM Equities (-4.9%)

EM stock markets witnessed a greater downturn in August with major markets of China, Russia, India and Brazil performing poorly.

Outlook: Dovish EM central banks and policy stimulus in China are appealing attributes for EMs, though the increased trade conflict and the slowing EM growth momentum leads us to maintain our view.

DM Fixed Income (+2.0%)

Treasuries rallied across the curve as safe havens were sought after by investors amid disappointing data releases and a slowing global growth outlook.

Outlook: Safe havens will be sought after amid a combination of continuing trade concerns, weak macro Euro data and Brexit uncertainty. Central banks will continue to try to find their bottom with global negatively yielding sovereign bonds hitting new highs.

EM Fixed Income (+0.80%)

An increased dovish stance from central banks continued to provide a tailwind for EMD to post positive returns with High Investment Grade outperforming High Yield Bonds.

Outlook: Robust policy response to a fall in growth and inflation and the Fed's increased dovish stance will continue to provide a supportive backdrop for EMD.

+ Positive Returns / – Negative Returns

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

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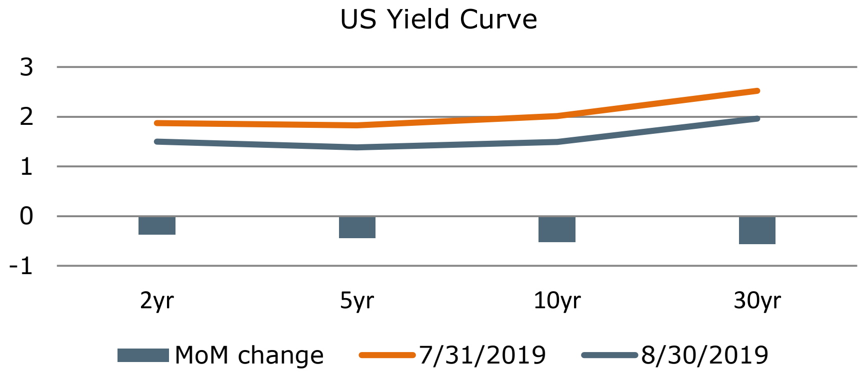

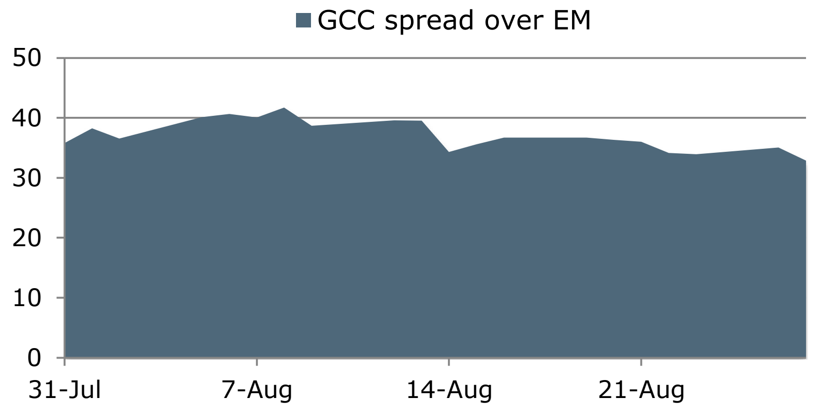

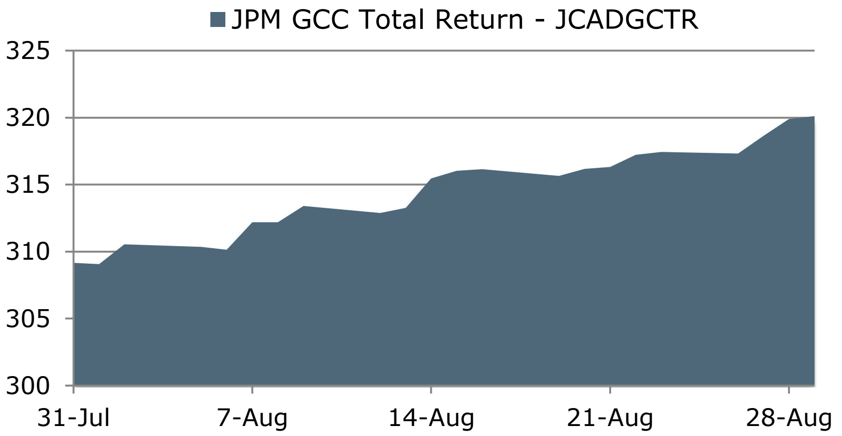

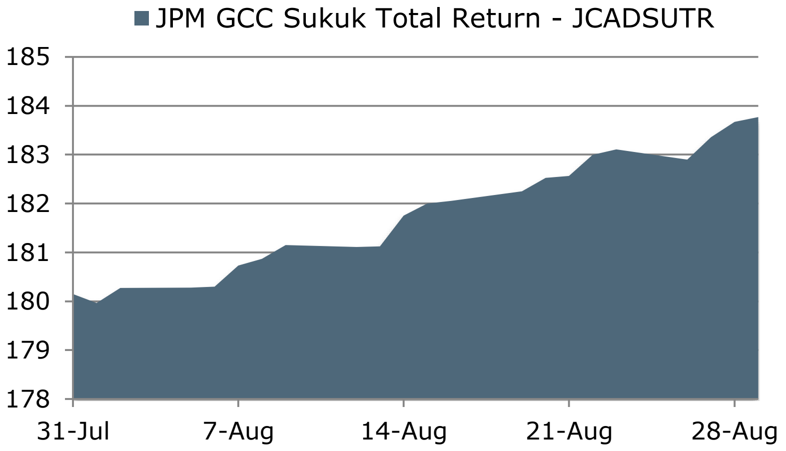

Sources: Mashreq Capital, Bloomberg

EM Fixed Income – Monthly Commentary

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Overview

EMD continued its positive performance in August with the global EMBI up 0.80%. The global benchmark's return was heavily overshadowed by the Middle East index's gain of 3.2%.

The month was very eventful as President Trump stepped up the trade war by announcing tariffs on approximately USD 300 billion of Chinese imports. This also triggered retaliatory measures by China. With no prospect of a trade deal in sight and a weakening economy, China was obliged to take additional stimulus measures in August.

Elsewhere, Argentina experienced major difficulties in the month following the government's decisions to delay repayment on short-term debt and stating the intention of restructuring long-term debt.

EM central banks such as India, Indonesia and Thailand eased their monetary policy stance more and earlier than the market expectations.

Saudi Arabia, Qatar, UAE, Bahrain and Kuwait finished their eighth month of phased inclusion in JP EMBI Index, they now represent 13.7% in EMBI Global which contributed to their powerful rally.

The impact of higher US exports, alongside weaker economic growth helped depress WTI and Brent prices in August. China expanded their scope of tariffs to include US crude oil imports for the first time. The ongoing trade war has already impacted oil demand in China and globally.

Outlook

EM bonds should continue to be one of the biggest beneficiaries of DM central bank policy easing. Investors are likely to flock to EMD given the increasing number of negative-yielding sovereigns from Germany to Japan as a result of dovish rhetoric from the Fed to the ECB. Negative yielding debt reached an all-time high in the month of August.

Jerome Powell's Jackson Hole Speech was largely in line with expectations and paves the way for the Fed to make another 25 basis points rate cut in September. The markets have already priced in this factor.

Continued weakness in German industry data raises the belief that the ECB's easing package this month will be sufficient to meet the baseline market expectations.

Increased monetary easing stance taken by EM central banks and Chinese stimulus could partially be expected to offset the sluggishness witnessed in the economy. EM government bonds and USD Investment Grade would be a preference relative to EM High Yield.

Longer duration bonds in GCC still have wider credit spreads as opposed to their similar rated EM peers. GCC Bonds are also supported by the EMBI inclusion which ends at the end of the month. Once included it will represent approximately 15% in the EMBI Global. We continue to tilt our mandates to play on the index inclusion and duration themes.

4. MENA Equities

MENA Equity View

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

Changes in Mashreq Capital View from last month:

- GCC Banks: falling interest rates to negatively impact profitability hence we downgrade to negative from neutral.
- GCC Consumer goods: the decline in Saudi consumer spending has reached its bottom and a decline in expat exodus should help turnaround hence upgrade to neutral.
- Real estate: falling interest rates will positively benefit interest rates hence we upgrade to neutral from negative.
- Telecommunications: high leveraged sector should positively benefit from interest rate cuts leading us to upgrade to positive from neutral.
- Materials: negatively impacted from weaker demand due to US-China trade war hence we downgrade to negative from neutral.
- Utilities: resilient to global volatility due to its defensive business nature resulting positively hence we upgrade to positive from neutral.

Mashreq Capital View: Positive Neutral Negative

MENA Equities – Monthly Commentary

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Overview

MENA struggled in August with the index down 5.4% on the back of trade war concerns and geopolitics. Oil prices also declined by 6.3% over global growth concerns. MENA markets are up 4.7% for the year outperforming Emerging markets, which are up 0.4% YTD.

In Saudi, the market dropped the most by 8.2% as the second tranche of MSCI EM index inclusion ended in August and the market sold off aggressively after the trade especially with the earnings growth outlook does not justify the current expensive valuations. The market is up 2.5% YTD.

Egyptian shares (Hermes Stock Market Index) gained the most up 8.4% for the month (similar in USD terms) as rate cuts and cooling inflation drove the investor sentiment. The market is up 7.6% YTD.
The Qatari market continues its sideways journey in absence of any real catalysts and EM ETF outflows pushed the market further down by 2.6% in August. The market is down by 0.6% YTD.

The UAE finished down 4.7% on trade war escalation and no additional headlines (mainly FOL related) to support the momentum after strong rally in previous month. Also, disappointing 2Q19 earnings numbers from Emaar related names weighed on the market performance in Dubai. The UAE overall index is up 3.4% YTD.

In Kuwait, the market paused it's rally in August on the back of global volatility and finished down by 3.2%. The market is up 23.9% YTD.

Outlook

In Saudi, we expect the weakness to continue after the final phase of inclusion in the MSCI EM index was made effective and valuations look expensive which could weigh on the performance.

In Egypt, inflation has reached in single digit despite additional utility and fuel subsidy cuts, due to high base effects and a stable currency. The CBE after cutting 250bps interest rates in YTD 2019, we expect further c.100bps cut for the remainder of 2019 which should help sustain the rally.

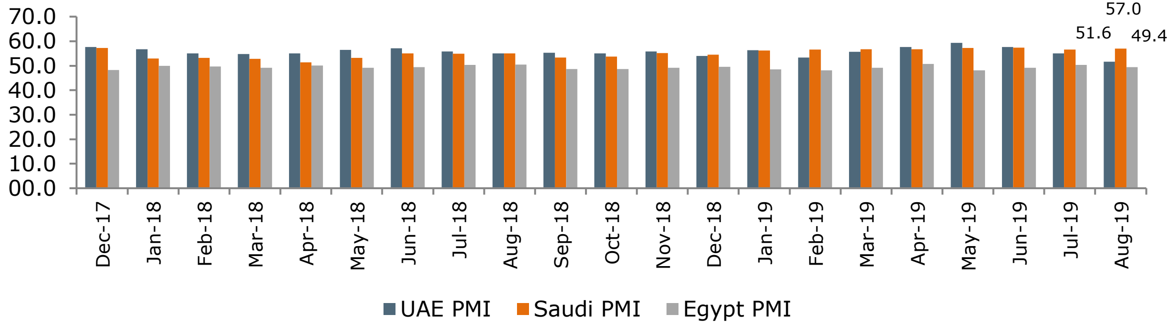
Qatar does not have any catalysts or major risks on the horizon. In terms of valuation, the market is in line with its 5 year average P/E at 14.8x TTM – as a result we see limited upside in this market.

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 $110bn of imports from China, effective September should weigh on global markets. The inversion of the 2s10s Treasury curve intensified concerns about the recession risk in the US and economic data out of Germany and China indicating further weakness.

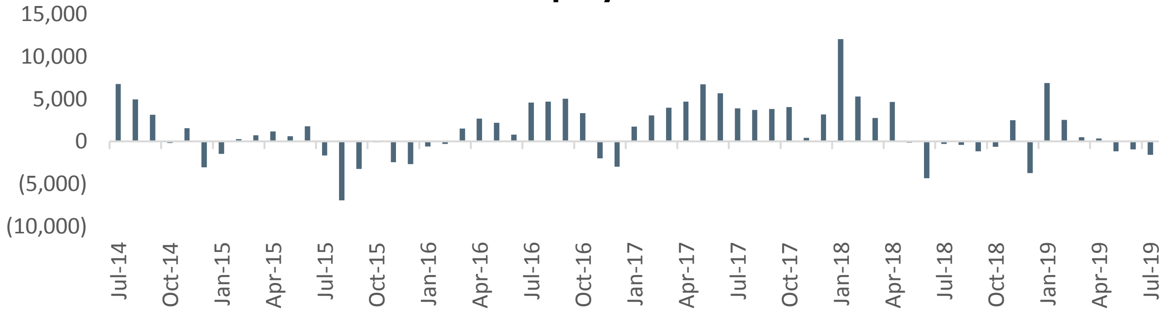
MENA Equities

Purchasing Managers Index



Saudi PMIs increased to 57.0 on the back of strong orders. UAE PMIs fell to eight year low of 51.6 in August on the back of weaker new orders and Egypt PMIs retreated into contraction in August to 49.4.

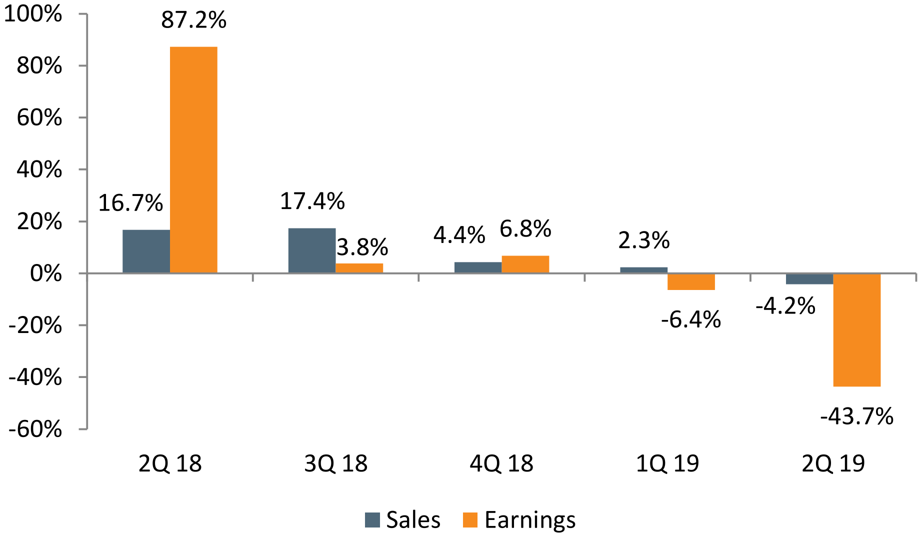
EM Equity Funds Flow



July saw a net outflow of USD1.6bn vs. net outflows of USD0.9bn in June, in Emerging Market Equity Funds.

MENA Equities – Chart of the Month

Earnings Analysis: S&P Pan Arab Composite Index



Negative growth: MENA earnings recorded negative growth in sales and earnings for 2Q19 mainly due to weaker results from Financials and Materials names.

Sources: Mashreq Capital, Bloomberg

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