



Monthly Market Insights

November 2020

Macro update – Second wave and US Presidential Election

Asset Classes	Closing	MTD	YTD
S&P 500	3,270	-2.77%	0.37%
MSCI EM	1,103	1.98%	-2.18%
MSCI World	2293	-3.14%	-3.49%
MSCI GCC	509	-2.11%	-10.85%
Oil	36.90	-9.89%	-44.61%
Gold	1879	-0.37%	22.87%
US Treasury Yield	0.874	19bps	-100bps

Key Interest Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.216	-1.8	-168.5
EURIBOR	-0.523	-2.5	-14.4
TIBOR	0.079	0.0	1.0
SIBOR	0.846	-2.3	-138.4
EIBOR	0.435	-5.3	-172.2
HIBOR	0.503	-10.6	-190.6

Upcoming Key Event

03.11.2020	US Presidential Election
03.11.2020	UAE and Saudi Arabia PMI Index
05.11.2020	FOMC Rate Decision
06.11.2020	US Unemployment Rate- Oct 20'
	ECB's Lagarde, BOE's Bailey, Fed's Powell to Speak at ECB Forum
12.11.2020	
13.11.2020	Eurozone 3Q20 GDP YoY/QoQ
18.11.2020	EU27 New Car Registrations
19.11.2020	Turkey Interest Rate Meeting
21.11.2020	Qatar Trade Balance

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OVERVIEW

Volatility spiked during October, attaining its two-month peak, as an alarming rise in coronavirus caseloads in the US and Europe threatened fledgling global economic recovery. Most European governments implemented new social restrictions to contain the pandemic, leaving the markets staggered. Hopes for near-term fiscal stimulus in the US lifted market sentiment earlier in the month but waned after the Senate left for pre-election recess with no relief bill in sight. The uncertain political climate, including the prospect of contested outcome in the November US election, further added to the turbulence, keeping investors increasingly on the edge. US major equity indices pulled back, erasing the early month gains ahead of key earnings releases. The risk-off tone favoured safe-haven Treasuries, causing the 10-year yield to reverse course after breaking 0.80% resistance. Strong demand however supported the investment-grade corporate debt as investors welcomed a series of M&A deals in the energy sector.

MACRO BACKDROP

- International Monetary Fund (IMF) in its latest World Economic Outlook report projected the global economy to shrink 4.4% in 2020, a less severe contraction from its earlier estimate of 5.2%. IMF also warned that the economic rebound due next year will wane in 2022.
- The US macro data seemed generally positive. Housing sector continued to exhibit most of the strength with building permits reaching new 13-year highs and existing home sales climbing 9.4% in September, the highest level since May 2006. Meanwhile, labor market experienced a steady recovery with continuing claims falling by 1 million to 8.4 million.
- China's economy expanded by 4.9% in the third quarter compared to a year ago. Other indicators such as industrial output growth at 1.2% y/y in September surpassed the pre-pandemic levels, further providing evidence of the country gaining momentum.

KEY REGIONAL NEWS

- Dubai launches AED500mn (US\$136mn) economic stimulus package to support the local economy, taking Dubai's total stimulus measures this year to AED6.8bn. [Source: Gulf News](#)
- Saudi ministry closes October 2020 domestic sukuk issuance worth US\$72mn. [Source: Zawya](#)
- Turkey's sovereign investment fund postponed its international bond debut owing to lack of investor's interest, observed during the roadshow. [Source: Nasdaq](#)
- The dual economic shocks of the COVID-19 pandemic and decline in oil prices have affected all aspects of MENA's economies, which are projected to contract by 5.2% in 2020. [Source: World Bank](#)

Sukuk – Banks driving volumes

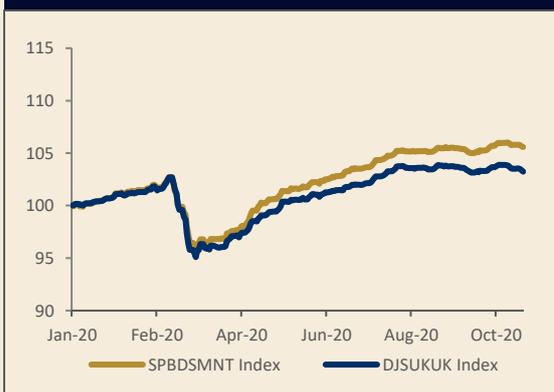
Sovereign 5-year CDS spread movement



Development in regional CDS market

During October 2020, the CDS spreads for Turkey tightened the most (-26bps) followed by Saudi Arabia (-21bps), Kuwait and Abu Dhabi (-12bps each). While Oman continued to demand higher insurance cost with spreads staying elevated at 470bps, after facing a one-notch downgrade from S&P on the back of rising debt levels amidst low oil prices. Notably, the Central Bank of Turkey continues to surprise the market by keeping the rates unchanged at 10.25%, pushing Lira to the lowest point since 1999 (at 8.17, -27% YTD). Nonetheless, spread tightening can be accounted for fading geopolitical risks (withdrawal of troops from Armenia and targeted anti-dumping approach by EU vs. a full-blown trade suspension). For Saudi Arabia, the recovery in economic activity (20% below pre-pandemic levels) from the lows of April and May has been viewed positively by the market.

Sukuk index total return*



*rebased to 100 on 1 January 2020

Indices remained quiet ahead of US elections

S&P Sukuk MENA and Dow Jones Sukuk indices remained almost unchanged in October 2020. The utility sector credits namely Mazoon Electricity and Saudi Electric outperformed with yield-to-worst (YTW) tightening by 33bps and 31bps respectively, while the Dubai Islamic Bank remained the worst performer with YTW widening by 48bps. Notably, EMIRATES REIT credit recovered significantly by 2600bps (YTW down to 31% from 57%) and stood out as an outlier. The Global Sukuk issuance (USD and EUR denominated) growth decelerated during October 2020 with total deals coming down to 6 (albeit higher than the YTD monthly average of 5.5), thereby raising US\$3.2bn. Among the issuers, the Arab National Bank issued US\$750mn in 10-yr callable Sukuk, which received orders over US\$2.0bn. Moreover, the Qatar Islamic Bank issued 5-yr dollar-denominated Sukuk worth US\$750bn, which was oversubscribed 2.9x.

Monthly Sukuk new issuance volume

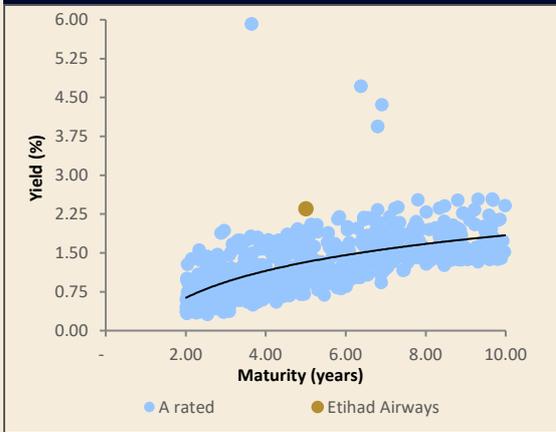


Key developments

- On October 16, 2020, **S&P downgraded Oman’s rating to ‘B+’ from ‘BB-’ and maintained stable outlook**, citing increased debt levels amidst oil price shocks. The rating agency anticipates debt-to-GDP to rise to ~84% at 2020-end (2019: 60%) driven by slow recovery in oil prices, thereby widening fiscal gap.
- National Commercial Bank**, Saudi Arabia’s largest lender by assets, agreed to buy rival **Samba Financial Group** for US\$15bn. The new bank will have total assets of more than US\$220bn, creating the Gulf region’s third-largest lender.
- The Capital Market Authority (CMA) has approved the request of Kuwait International Bank (KIB) to issue Tier 2 capital Sukuk for an amount of up to US\$300mn. Source: Zawya

Sukuk – Banks driving volumes

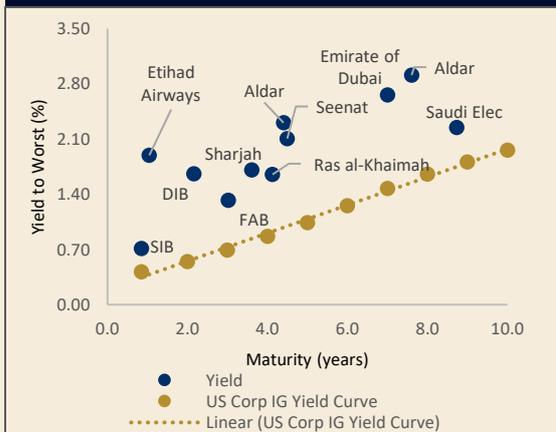
Etihad offers attractive yield vs. A-rated bonds



Etihad Airways

- Etihad Airways (Etihad) is the second-largest airline of the UAE, after Emirates. The carrier operates 103 aircraft (including six dedicated freighters) with an average aircraft age of just 5.3 years. Passenger revenue accounts for 85% of total revenue while Cargo Services contributing the rest.
- Etihad has recently placed a transitional Sukuk worth US\$600mn (AED2.2bn) in five years' maturity. The proceeds from the Sukuk are going to be used for gradually shifting to environmentally sustainable operations. The airline aims to cut its 2019 carbon emissions level in half by 2035 and reduce emissions to zero by 2050.
- The Sukuk is priced at 200bps over mid-swaps and currently trading at 100.2 with a YTW of 2.35% and a G-spread of 197bps. The Sukuk is offering an attractive pick-up of about 100bps (in terms of yield) over the A-rated bond yield curve. The existing 2021 Sukuk is trading at 102 offering a YTW of 1.88% and a G-spread of 176bps.
- Fitch has rated the airline and the recent issue at 'A', the highest rating among the global airlines such as Air New Zealand (Baa2), Qantas (Baa2), Lufthansa (Ba2) as Etihad is wholly owned by the Emirate of Abu Dhabi with an established track record of timely government support.
- Simultaneously, Etihad also announced a tender offer up to US\$500mn for its outstanding \$1.5 billion Sukuk due in 2021. This transaction will reduce the average interest costs by 0.55% and extend the maturity by 2.5 years.
- Etihad operates small-sized aircraft and has some headroom to maneuver route selection to optimise capacity utilisation compared to its domestic peers. Concurrently, the management is working tirelessly on its restructuring plan that includes cuts in services, payment holidays with lessors, savings discussions with their supply chain, grounding of Jumbo jets (10 Airbus A380s), and staff cost reduction to contain operating losses.

Sukuk vs. US Corp IG yield curve

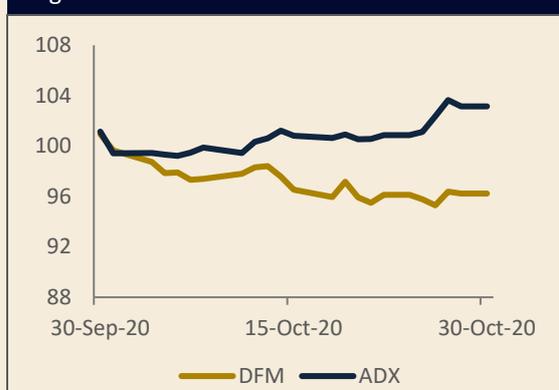


GCC – USD and EUR-denominated Sukuk issuances in October 2020

Issuer Name	Coupon (%)	Issue Date	Maturity	Amount Issued (US\$m)	Country
Arab National Bank	3.326	10/28/2020	10/28/2030	750	KSA
QIB Sukuk Ltd.	1.950	10/27/2020	10/27/2025	750	Qatar
ICDPS Sukuk Ltd.	1.810	10/15/2020	10/25/2025	600	KSA

UAE Equities – Real Estate and Banks dragged the DFM index

Regional index movement*



*rebased to 100 on 30 September 2020

DFM top five gainers and losers

Gainers	MTD	Losers	MTD
DAMAC	18.3%	AMLAK	-15.1%
TABREED	9.9%	AMAN	-14.6%
ERC	9.3%	SALAMA	-14.3%
MASQ	8.4%	DXBE	-14.2%
ALSALAMS	6.4%	EMIRATES	-10.8%

ADX top five gainers and losers

Gainers	MTD	Losers	MTD
ALDAR	36.3%	DRIVE	-9.6%
AGTHIA	21.4%	ADSB	-9.0%
METHAQ	20.3%	GCEM	-7.2%
REEM	15.0%	BILDGO	-5.5%
NMDC	11.7%	RAKWCT	-4.9%

UAE markets posted divergence in returns

The UAE equities closed mixed MTD (Sep 24 to Oct 25, 2020) with a 2.3% rise in the ADX index compared to a 3.3% drop in the DFM index. At the global level, most markets recovered strongly post weak September, buoyed by better-than-expected corporate earnings and optimism over likely another fiscal stimulus in the US. However, the gains were capped by rising global growth worries amid the resurgence of coronavirus cases especially in Europe and uncertainty over the US election outcome. Regionally, the ADX index outperformed its peers, led by healthy gains in key sectors including Consumer Staples (+17.5%), Real Estate (+9.7%) and Banks (+1.9%). In contrast, the DFM index posted the highest decline among its regional peers' group, largely owing to weakness in the index heavyweight stocks such as Emaar (-9.1%) and DIB (-4.0%). In DFM (-48% MoM) and ADX (-38%) average daily volume declined, owing to a sharp fall in foreign and local investors' activities.

ADX index is trading above all major moving averages and witnessed a positive cross-over between 50- & 200-SMAs, and 100- & 200-SMAs. However, the index may face resistance around the 4,650 level. After its recent upward trajectory, the DFM index has been challenged by 200-SMA and witnessed negative cross-over between 50- and 200-SMAs.

Most read regional company headlines

Emirates NBD	Emirates NBD's net profit falls 68.9% YoY to AED1,556.1mn in 3Q2020
FAB	First Abu Dhabi Bank's net profit falls 19.5% YoY to AED2,505.5mn in 3Q2020
Dana Gas	Dana Gas agrees to \$236mn sale of Egypt assets to IPR
Aldar Properties	Aldar to take over \$8.2bn of government capital projects in Abu Dhabi
DIB	Dubai Islamic Bank to suspend services for final merger phase with Noor Bank
Tabreed	Tabreed shareholders approve \$1bn bond or Sukuk issuance
FAB	First Abu Dhabi Bank issues \$750mn benchmark Tier 1 six-year bond

Performance of regional markets

Country	Last close	Index changes %		MCap US\$bn	Volume mn shrs	Turnover US\$ mn	P/E (x) 12M	P/B (x) 12M	Div Yld 12M %
		1M	YTD						
Abu Dhabi	4,660	3.1	-8.2	187.7	134.1	157.7	17.5	1.3	5.3
Dubai	2,188	-3.8	-20.9	64.6	126.9	44.4	8.9	0.8	4.5
Saudi Arabia	7,908	-4.7	-5.7	2,297.7	296.5	2,033.0	28.2	1.9	2.5
Kuwait (All shares)	5,443	0.0	-13.4	99.1	187.1	117.6	31.1	1.3	3.7
Oman	3,558	-1.6	-10.6	10.9	5.8	2.3	10.4	0.7	7.0
Bahrain	1,427	-0.5	-11.4	21.7	3.8	2.2	13.8	0.9	4.7
Qatar	9,691	0.2	-5.9	141.3	143.8	74.6	16.4	1.4	4.1

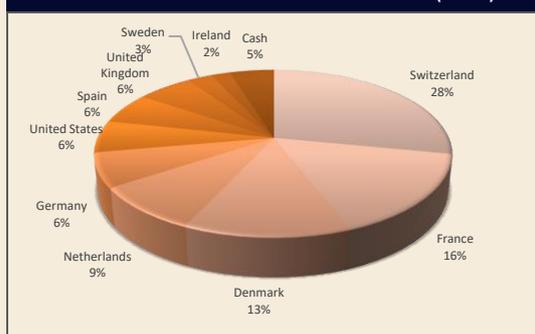
Mutual funds' – Equities outperformed despite higher volatility

COMGEST GROWTH EUROPE S "USD" (USD)



*rebased to 100 on 1 January 2020

COMGEST GROWTH EUROPE S "USD" (USD)



Global equity funds led the MTD returns

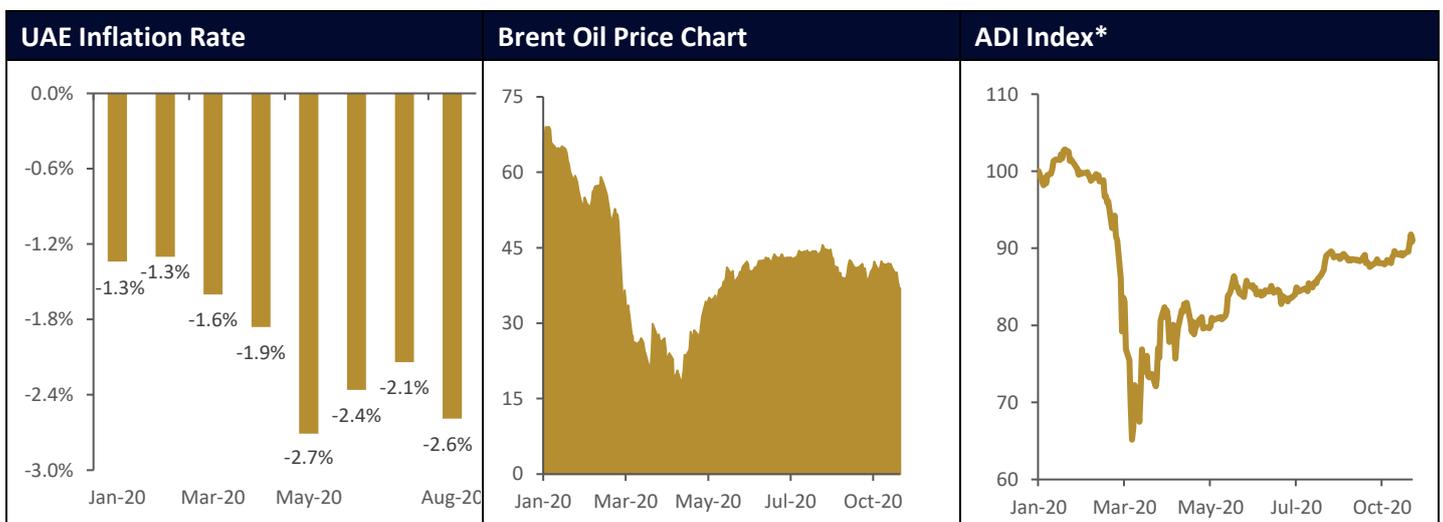
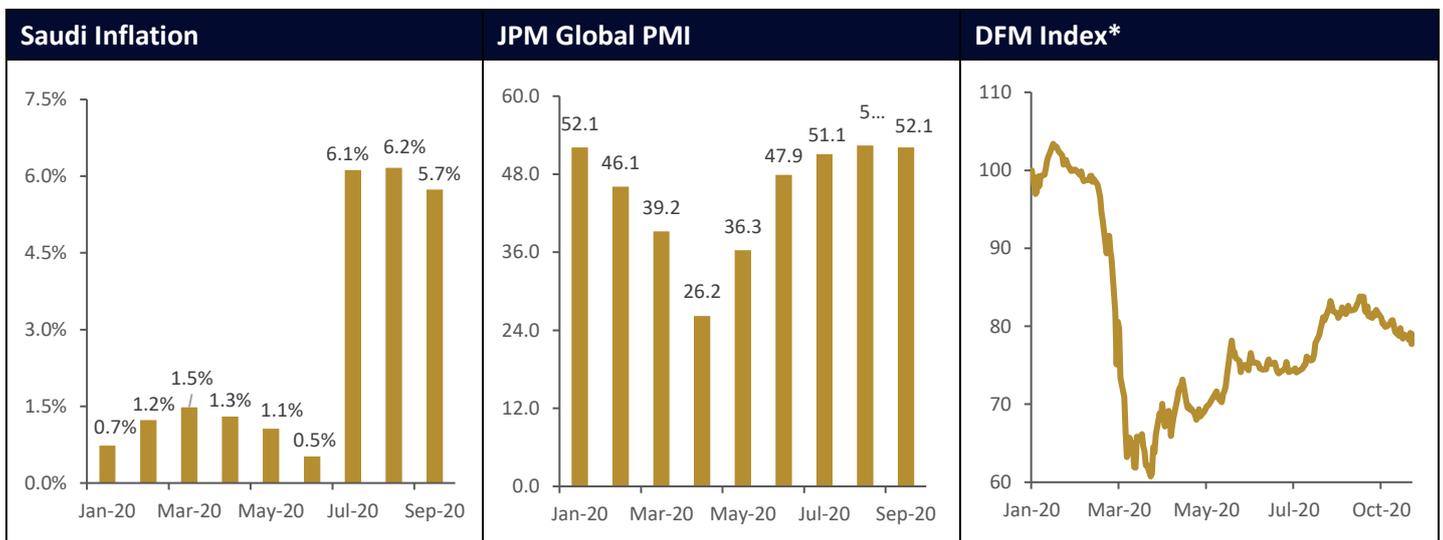
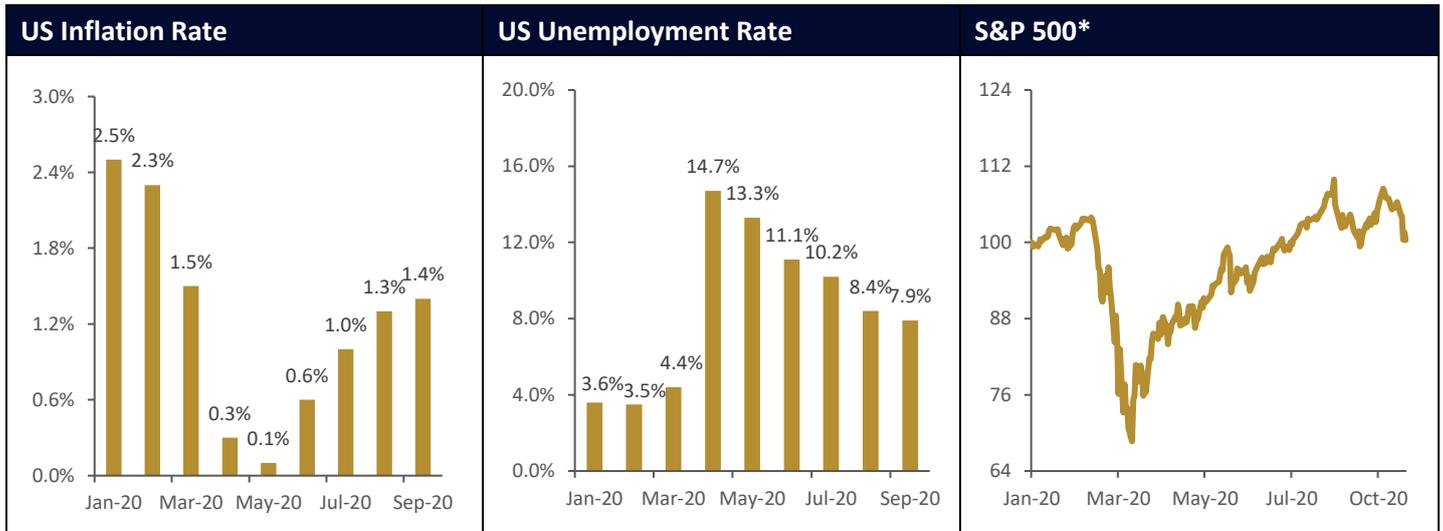
- From our coverage of 30 mutual funds, 23 funds closed in the green on MTD basis (Sep 24 to Oct 25), largely led by equity funds, driven by continued strong monetary & fiscal support across the globe and also helped by positive surprise on the corporate earnings side. However, most markets suffered losses in the last week (i.e. S&P dropped by 5.6% from Oct 26 to Oct 30) due to increased risk aversion amid a spike in coronavirus cases and also exacerbated by uncertainty over the US elections outcome.
- Al Ahli North America Index Fund (+6.06% MTD) led the gainers' pack. The outperformance was mainly attributed to the strong growth in the IT and Healthcare sectors in the North American market, where the fund is majorly concentrated.
- Franklin Global Sukuk fund "A" (EUR) ACC declined the most (-0.9% MTD).

COMGEST GROWTH EUROPE S "USD" (USD)

The COMGEST Growth Europe S USD fund is an open-ended Shariah-compliant equity fund that invested in European companies or firms carrying out their predominant operations in Europe. The fund has been outperforming the benchmark, up by 4.5% YTD. In total, the fund has a holding in 35 companies, skewed towards IT (27% of NAV), healthcare (23.5%), consumer staples (14.4%), and discretionary (14.3%) sectors. European market has been underperforming the US over the last few years because the US has a much higher exposure to the IT sector. The fund, being active, holds a higher weight in the IT sector versus the European index, which explains the fund's outperformance relative to its benchmark. In addition, the fund provides a growth opportunity given the relatively lower valuation of European stocks and a better outlook of EUR against USD.

List of mutual funds

Fund names	ISIN	NAV	Currency	MTD	YTD
EMIRATES INDIA EQUITY "A" (USD) ACC	LU1484867434	12.59	USD	2.69%	12.46%
EMIRATES INDIA EQUITY "A" (USD) INC	LU1654400644	9.80	USD	1.87%	9.13%
EMIRATES GLOBAL SUKUK "A" (EUR) ACC	JE00B5V8LK49	15.51	EUR	1.38%	-1.82%
FRANKLIN GLOBAL SUKUK FUND "A" (EUR) ACC	LU0923115892	13.41	EUR	1.13%	-0.07%
EMIRATES GLOBAL SUKUK "A" (USD) ACC	LU1060356364	12.22	USD	1.04%	2.34%
EMIRATES GLOBAL SUKUK "A" (EUR) ACC	LU1060356281	12.26	EUR	0.99%	-0.32%
MASHREQ AL ISLAMI INCOME "B" (USD) ACC	AEDFXA1T6467	18.76	USD	0.64%	1.07%
AZ ISLAMIC MAMG GLOBAL SUKUK "A-ME" (USD) ACC	LU1435409286	5.78	USD	0.57%	1.90%
AZ ISLAMIC MAMG GLOBAL SUKUK "A" (AED) ACC	LU1590082662	5.54	AED	0.56%	1.89%
FRANKLIN GLOBAL SUKUK FUND "A" (USD) ACC	LU0792756115	12.89	USD	0.55%	3.78%
Oasis Crescent Global Income "A" Acc	IE00BCV7MT61	13.28	USD	0.45%	3.43%



All figures and charts across the report are sourced from Bloomberg and ADIB research. Data as on 30 Oct 2020

*rebased to 100 on 1 January 2020

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