



Monthly Market Insights

June 2021

Macro update – Taper tantrum comeback

Asset Classes	Closing	MTD	YTD
S&P 500	4204	0.55%	13.60%
MSCI EM	1361	-0.31%	4.32%
MSCI World	2979	0.93%	11.58%
MSCI GCC	653	1.04%	18.73%
Oil	68.43	2.95%	36.81%
Gold	1904	6.85%	-2.01%
US Treasury Yield	1.594	-2bps	68bps

Key Interest Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.131	-4.5	-10.6
EURIBOR	-0.544	-0.9	0.2
TIBOR	0.069	0.0	-1.0
SIBOR	0.791	-0.4	-2.5
EIBOR	0.375	1.9	-7.5
HIBOR	0.173	-0.1	-15.8

Sovereign CDS	Closing	MTD (bps)	YTD (bps)
Abu Dhabi	42.4	-2.8	4.0
Saudi Arabia	60.4	-6.6	-5.2
Kuwait	50.2	-0.5	3.3
Bahrain	206.0	6.9	-40.5
Oman	258.9	-18.8	-108.4
Turkey	409.7	-8.2	105.9

Upcoming Key Events	
09.06.2021	Dubai PMI
14.06.2021	Saudi Arabia GDP 1Q21
16.06.2021	FOMC Meeting
17.06.2021	Turkey Central Bank Meeting

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OVERVIEW

In May, commentary from major central bank policymakers and concerns over a faster-than-expected rise in inflation dictated trends in global financial markets. Although Fed chief Jerome Powell reiterated his commitment to support the economy via its ultra-loose monetary policy, rising inflationary pressures shifted the narrative. Minutes of the April policy suggested that several policymakers were open to considering scaling back of fixed income security purchases at 'some point in upcoming meetings.' The equity markets remained steady as investors gauged inflation concerns and varied comments from Fed officials despite strong corporate earnings. Meanwhile, the 10-year US Treasury yield slipped to 1.56%, its lowest level in over a month, taking cues from fading taper talks towards the end of the month. Echoing similar sentiments as the Fed, the European Central Bank too downplayed the impact of rising prices on monetary policy expectations, citing the uptick in inflation as transitory. Going ahead, investors should look at the June 10 policy meeting for fresh direction.

MACRO BACKDROP

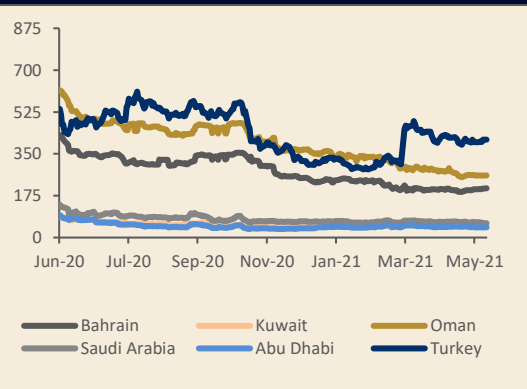
- US macro data revealed a mixed picture. CPI rose 4.2% y/y (0.9% m/m) in April, posting the largest gain since 2009, from 2.6% in the month prior. Manufacturing activity too picked pace, with flash PMI rising to a record high of 61.5 in May. Jobless claims slipped to fresh pre-pandemic lows of 406K in the week to May 22. On the contrary, non-farm payrolls revealed an addition of 266K jobs in April, far below expectations of 1,000K, while unemployment rate rose to 6.1% in April from 6% a month ago. Retail sales remained unchanged in April from a 10.7% surge in March, while housing starts declined 9.5% m/m.
- In the Eurozone, manufacturing PMI rose to record high of 62.9 in April while service sector jumped to 50.5. CPI rose 0.6% m/m and 1.6% y/y in April. The European Commission's economic sentiment indicator surged to 110.3 points in April and retail sales rose 2.7% m/m in March.

KEY REGIONAL NEWS

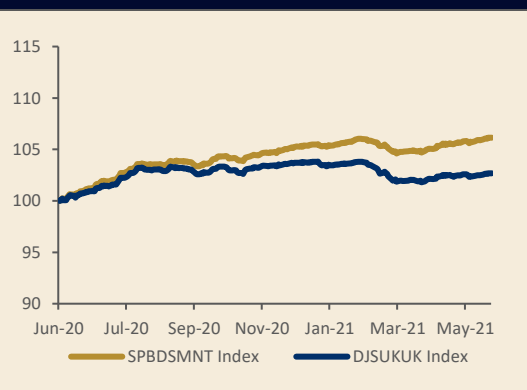
- The UAE government is allowing 100% foreign ownership of onshore companies effective from June 1. Source: *Gulf News*
- Saudi Arabia's economy shrank 3.3% y/y in the 1Q21, owing to oil output cuts. Notably, the non-oil economy expanded by 3.3%, recovering from the pandemic. Overall GDP declined by 12% in 1Q21 due to OPEC's ongoing crude oil production cuts. Source: *Reuters*
- On May 25, 2021, Turkish President Recep Tayyip Erdogan replaced Turkey's central bank deputy governor Oguzhan Ozbas. Semih Tumen, who had previously worked for the central bank from 2002 to 2018 is appointed as a new deputy governor. Source: *CNBC*

Sukuk – Supply moderation as financial needs narrow

Sovereign 5-year CDS spread movement

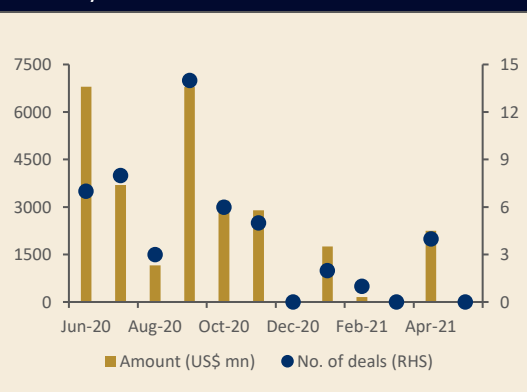


Sukuk index total return*



*rebased to 100 on 1 June 2020

Monthly Sukuk new issuance volume



Development in regional CDS market

The 5-year CDS spreads tightened across almost every region on an MTD basis in May 2021. Tightening of CDS spreads in GCC was helmed by expectations of narrowing fiscal deficits and improved economic activities owing to an expected surge in global demand for commodities following the easing of lockdown restrictions further. Unwinding OPEC+ production cuts are also expected, but average oil output will likely end up below 2020 level. CDS spreads of Oman tightened the most in the region by 18.8bps on MTD basis, followed by Saudi Arabia (6.6bps). Turkish CDS spreads tightened by 8.2bps MTD as Turkey's Central Bank kept interest rates steady at 19%, to keep them above the nation's rising inflation and anchor the Turkish lira's derailment. On the contrary, Bahrain's CDS spreads widened by 6.9bps on MTD as Moody's revised the outlook from stable to negative, citing weakening in fiscal metrics and uncertainty hovering around augmentation of the financial support package from the fellow GCC sovereigns.

Muted month for Sukuk issuances

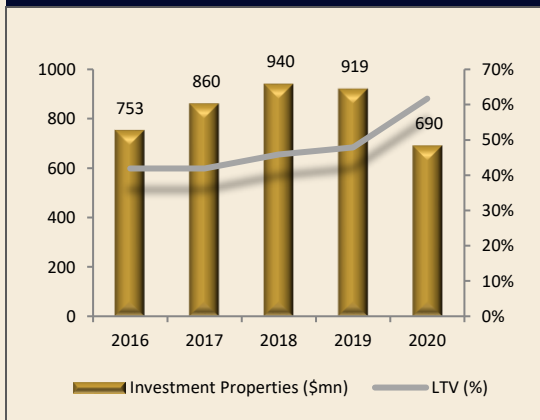
Both S&P Sukuk Mena and Dow Jones Sukuk indices increased marginally in May 2021. Qatar Government 23s' and Senaat 25s' were the best performers with yield to worst (YTW) tightening by 243bps and 186bps, respectively. On the contrary, Government of Malaysia 45s' and DUGB 29s' were the worst performers, with YTW widening 184bps and 158bps, respectively. In utility companies, Saudi Electric 28s' underperformed with yield widened by 128bps, while DIFC 24s' widened by 171bps. The primary Sukuk market in May 2021 remained subdued with negligible Sukuk issuances in USD and EUR.

Key developments

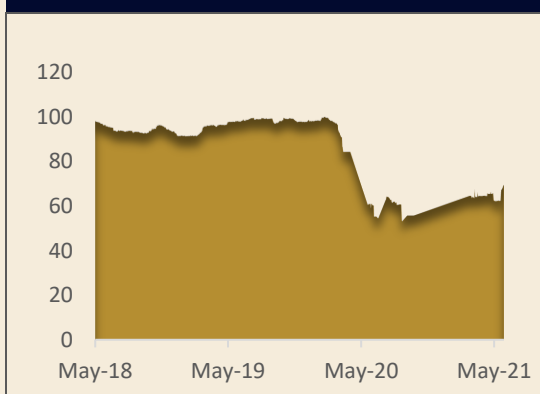
- On May 18, 2021, **Fitch affirmed Oman's 'BB-' rating with a Negative outlook**, citing **large fiscal and external deficits, and high GDP per capita**, while underscoring weakening gross external asset position.
- On April 29, 2021, **Moody's changed Bahrain's outlook to Negative**, while affirming B2 ratings, citing earlier expected **weakening** in fiscal metrics and ongoing **uncertainty around the timing and the size of the augmentation** of the financial support package for Bahrain from the fellow Gulf Cooperation Council (GCC) sovereigns.
- Garuda Indonesia** is planning to slash its fleet in half in an attempt to cut losses and mounted borrowings, as the carrier struggles to stay aloft amid the COVID-19 pandemic and its effect on the global airline industry. Garuda **currently operates 142 planes**, but the executive said the number would shrink below **70 by the end of 2022**.
- On May 25, 2021 **Abu Dhabi sold \$2bn in seven-year fixed income security** in its first foray into the international Sukuk markets this year. Though Abu Dhabi was hit hard by Covid-19 pandemic, the rebound in crude demand has reduced the borrowing urgencies.

Emirates REIT – Restructuring underway

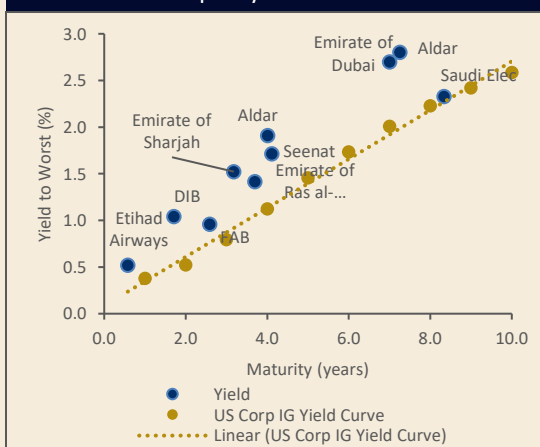
Emirates REIT – Property Value & LTV



Emirates REIT - 5.125% Sukuk Price



Sukuk vs. US Corp IG yield curve

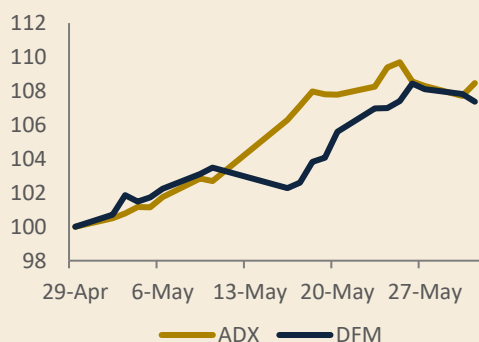


Emirates REIT

- Emirates REIT (EREIT) has proposed to exchange its 5.125% \$400mn unsecured Sukuk maturing December 2022 with a new secured Sukuk maturing December 2024 with the same profit rate and principal, which will have first-ranking security over company properties valued at around \$280mn (as at December 2020 end). While the coupons are payable in June and December 2021 for the existing Sukuk, the first coupon payment under the proposed Sukuk, totalling \$10.2mn will be paid at maturity.
- The existing Sukuk has been trading around 64 to 69 over the last month due to weakness in the commercial real estate market in the UAE. Moreover, the Sukuk is unsecured and there is prospect of impaired recovery in a default scenario. That said, refinancing tries to address the majority of these issues while maintaining 5.125% profit rate.
- EREIT has reiterated that it has sufficient liquidity to the profit payment of \$10.2mn due June 2021 if the aforesaid restructuring doesn't work out. Moreover, EREIT has taken several measures to preserve cash flows, suspending dividends in 2020 & reducing 2021 management fees by 20%
- In response to the proposed restructuring, Fitch downgraded the company to 'C' from 'B+', reckoning the exchange as material a reduction in terms for lenders. However, Fitch intends to re-rate the new secured Emirates REIT Sukuk following a successful transaction, based on business prospects and the new capital structure. Emirates REIT is anticipating that the new secured Sukuks will likely attract an improved rating benefiting from the collateral previously lacked. As at FY20-end, EREIT was in compliance with all the covenants of the existing 5.125% Sukuk.
- In a recent development, EREIT has however, rescinded the offer and it is expected that it will make the next coupon payment on the due date as reiterated and there is a high likelihood that within next 6 months, EREIT will come up with a new proposition for the sukuk holders.
- EREIT is still facing pandemic related headwinds, as evident from the dip in top line and profitability. There is a significant erosion in the fair values of investment properties reflecting continued challenging market conditions during 2020. However, 2021 will see volatility recede as economic conditions improve. That said, the proposed restructuring will bolster the balance sheet due to the extended maturity. Hence the Sukuk has an upside potential owing to the structural changes and possible ratings revision.
- Emirates REIT's, rental income was down by 9.7% y/y in FY20 as most office tenants (52% of 2020 rent) remained operating during the lockdown and continued to pay rent. Notably, occupancy rates declined marginally to 71% in FY20 (vs. 73% in FY19). EBITDA resonated with the revenue dip and fell 12.2% y/y. The lacklustre real estate environment amidst market oversupply and COVID-19 impact brought down the EBITDA margin to 44% in FY20 (46% in FY19). EREIT posted a positive fund from operations of \$0.5mn in FY20. The loan to investment property value ratio (LTV), albeit remaining stretched at 61.7% at FY20-end, was well within the threshold of 65%.

UAE Equities - Strong foreign buying

Regional index movement*



*Rebased to 100 on April 29

DFM top five gainers and losers

Gainers	MTD	Losers	MTD
ERC	50.0%	ALFIRDOU	-10.0%
EMAARDEV	28.0%	DNIR	-8.9%
AMLAK	20.9%	MASQ	-6.2%
OIC	16.3%	TAKAFULE	-6.1%
DEYAAR	14.2%	GULFNAV	-2.4%

ADX top five gainers and losers

Gainers	MTD	Losers	MTD
ARKAN	57.2%	FCI	-46.7%
ADSB	44.0%	SICO	-18.2%
ADNH	42.6%	EIC	-15.9%
BILDICO	31.3%	ZS	-14.8%
EASYLEAS	29.4%	ADNOCDIS	-11.9%

Abu Dhabi: Strong uptrend continues

Most global equity markets gained MTD (Apr 25 to May 25), driven by optimism over economy recovery post reopening amid ongoing faster rollout of vaccinations, however, talks of likely tapering from the US fed due to lingering inflation risks capped gains during the month. The UAE equities outperformed both regional and global peers on a MTD basis with the ADX gaining 8.4% while DFM was up 6.5%. ADX's strong performance was led by strong gains in index heavyweight FAB on expectation of higher weight in MSCI index. The rally in DFM was supported by easing COVID restrictions on the tourism & related activities and also owing to improving outlook of the domestic real estate sector. Further, local indices were helped by solid buying from foreign investors as they bought stocks worth AED 1,407mn on ADX and AED 239mn on DFM amid steadily higher oil prices. On sectoral side, Banks (ADX: +13.8%, DFM: +6.8%), Real Estate (ADX: +2.5%, DFM: +8.5%) and Telecommunication (ADX: +2.7%) contributed majorly to the rally in local indices. Index heavyweights such as FAB (+16.6%), DIB (+8.0%), Emirates NBD (+7.4%) and Emaar (+6.0%) were top gainers. The average daily volume rose by 17.6% MoM to 221mn and 50.5% MoM to 150mn on ADX and DFM, respectively.

On technical side, the ADX index is trading with strong upward momentum and above all major moving averages, also witnessing positive cross-over between 50- & 200-SMAs, and 100- & 200-SMAs. However, the index may face resistance around 6,744 level. For the DFM index, all major simple moving averages are positively stacked with supportive volume. The index may face resistance around the 2834 level; if index manages to close above 2834, then it may continue its upward momentum.

Most read regional company headlines

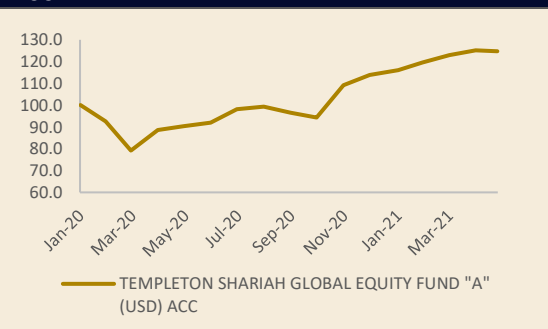
ADIB	ADIB reports net profit for 1Q2021 of AED608mn
TAQA	TAQA completes \$1.5bn 7-year and 30-year dual-tranche fixed income security offering
AGTHIA	Agthia Group reveals details about Oriongreen acquisition deal
ALDAR	Aldar to Invest in Fifth Wall 'PropTech' Fund
ADCB	ADCB gets three more offers for stake in Alexandria Medical

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	6,558.71	8.5	30.0	251.7	245.3	442.1	22.3	1.9	4.0
Dubai	2,797.52	7.4	12.3	82.6	81.1	38.9	21.0	1.0	2.9
Saudi Arabia	10,551.23	1.3	21.4	2,573.9	399.1	3,581.7	34.7	2.3	2.0
Kuwait (All shares)	6,210.90	1.6	12.0	118.0	336.5	173.1	39.4	1.6	2.3
Oman	3,852.61	2.4	5.3	12.1	9.5	6.7	11.6	0.7	4.7
Bahrain	1,527.62	2.9	2.5	23.5	3.2	1.3	26.1	1.0	2.2
Qatar	10,748.26	-1.5	3.0	148.0	77.2	84.8	18.2	1.6	2.7

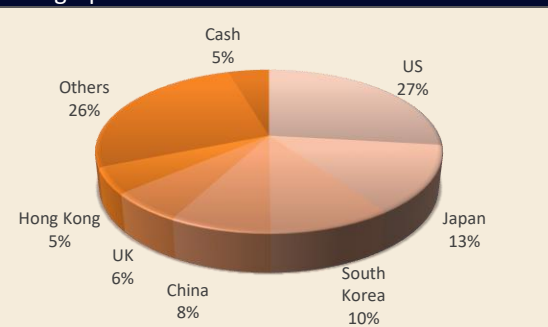
Mutual funds – Both equity and Sukuk funds gained MTD

Templeton Shariah Global Equity Fund "A" (USD) ACC



**Rebased to 100 on Jan 31, 2020

Templeton Shariah Global Equity Fund- Geographical Mix



Equity funds outpaced Sukuk funds on lower risk aversion

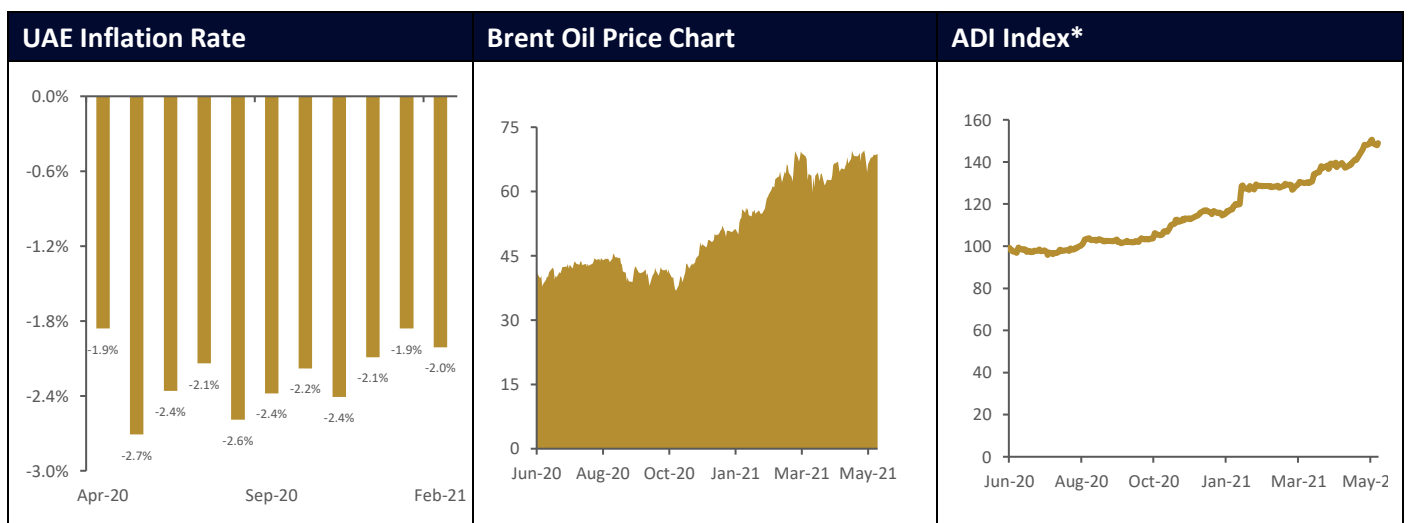
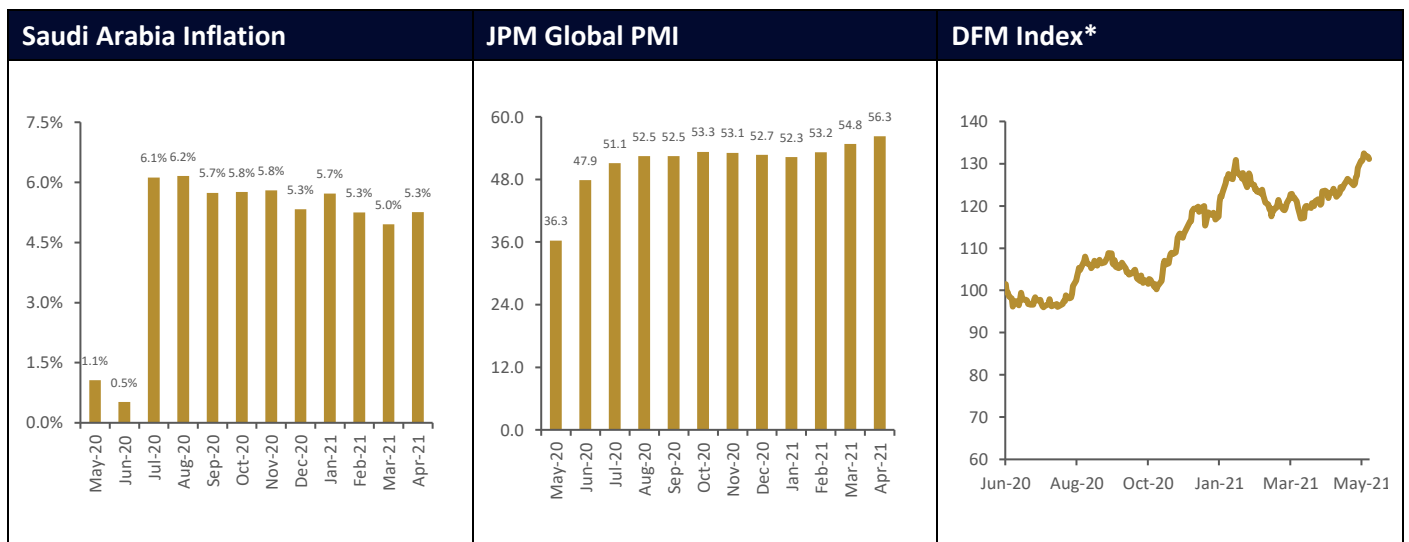
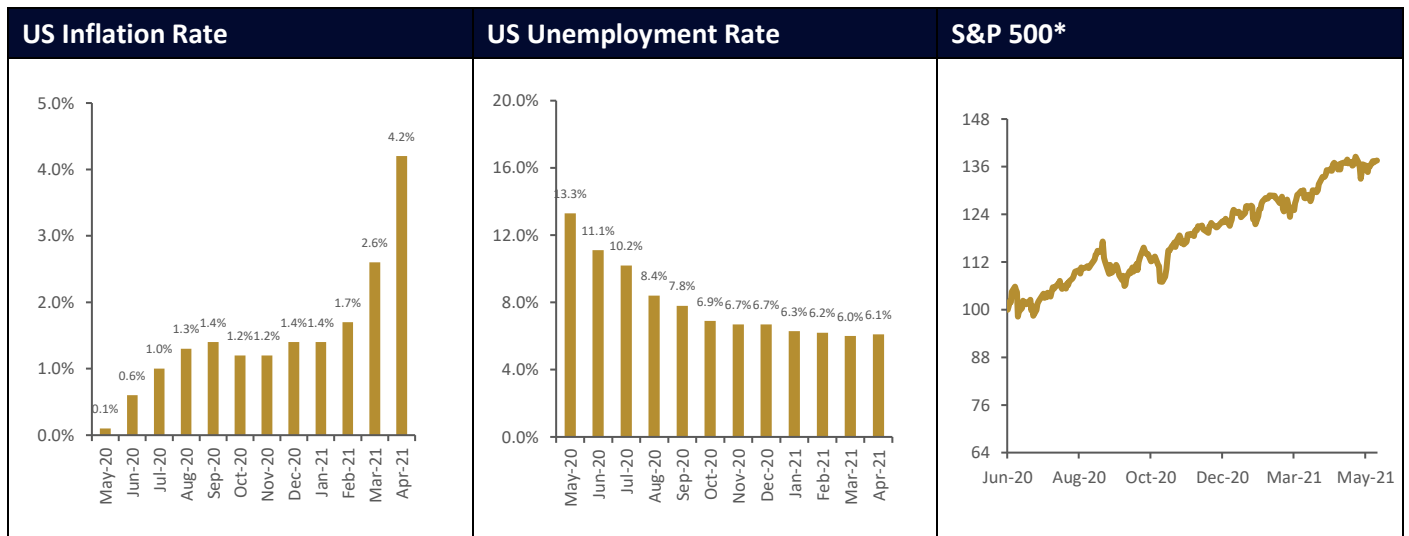
- From our coverage of 31 funds, 21 funds closed in the green on MTD basis (Apr 25 to May 25), with a combination of the equity and Sukuk funds as the gainers. Equity funds generated much superior returns driven by increasing risk appetite on likely expectations of speedy demand recovery post COVID era amid reducing number of cases along with rising vaccinations; however, inflation remains a major risk.
- Emirates India Equity Fund (+6.4% MTD) was the standout performer from our fund's coverage. The positive performance was mainly attributed to the high investment allocation to the Information Technology, Health Care and Consumer Discretionary sectors, which contributed to the returns.
- AlAhli North America Index Fund declined (-1.9% MTD). This performance can be attributed to high exposure to the US market which underperformed its developed and Asian market peers.

Templeton Shariah Global Equity Fund

Launched in 2012, Templeton Shariah Global Equity Fund is a Shari'ah-compliant equity fund that offers investors exposure to a broad spectrum of shariah stocks across the globe. After underperforming its benchmark on 3 and 5 years basis, the fund posted superior returns on 1 year basis with returns of 28.9% compared to 27.2% for benchmark as on Apr 2021. The asset allocation is well diversified across sectors including Information Technology (21.5%), Consumer Discretionary (15.3%), and Healthcare (14.6%), Materials (14.4%), Industrials (12.8%) and Energy (12.6%). However, in terms of market capitalization, the fund is concentrated mostly into large caps with allocation of around 83% of total fund assets. Going forward, given the expected recovery in global economy amid likely sustained high levels of low cost liquidity, the companies across the globe are well positioned to post strong earnings from low levels, which may benefit the fund.

List of mutual funds

Fund names	ISIN	NAV	Currency	MTD	YTD
Emirates India Equity Fund	LU1654400644	12.67	USD	6.03%	9.89%
Emirates India Equity Fund	LU1484867434	16.51	USD	5.99%	11.56%
Comgest Growth Europe S	IE00B3ZL9H82	29.48	USD	2.33%	10.21%
Comgest Growth Europe S	IE00B4ZJ4634	32.28	EUR	1.67%	10.66%
AlAhli GCC Trading Equity Fund	AFB007482106	1.29	SAR	1.63%	19.11%
Emirates World Opportunities F	LU1654397329	10.94	USD	1.48%	11.41%
Emirates World Opportunities F	LU1060357412	13.31	USD	1.44%	13.95%
Old Mutual Global Islamic Equi	IE00BYMM2054	16.20	USD	1.38%	16.46%
AlAhli Saudi Trading Equity Fu	AFB007482007	13.23	SAR	0.74%	21.45%
AZ Multi Asset - AZ Islamic -	LU1435409286	5.98	USD	0.07%	0.96%



All figures and charts across the report are sourced from Bloomberg and ADIB research. Data is as on 31 May 2021

*rebased to 100 on 1 June 2020

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