



Monthly Market Insights

October 2021

Macro update – Timing of Fed rate hike brought forward to 2022

| Asset Classes | Closing | MTD | YTD |
|-------------------|---------|-------|--------|
| S&P 500 | 4308 | -4.8% | 16.4% |
| MSCI EM | 1251 | -2.7% | -4.1% |
| MSCI World | 3029 | -3.7% | 13.4% |
| MSCI GCC | 725 | 2.3% | 31.8% |
| Oil | 78 | 9.4% | 56.7% |
| Gold | 1726 | -4.6% | -11.1% |
| US Treasury Yield | 1.487 | 21bps | 57bps |

| Key Interest Rates | Closing | MTD (bps) | YTD (bps) |
|--------------------|---------|-----------|-----------|
| LIBOR | 0.130 | 1.1 | -10.7 |
| EURIBOR | -0.545 | 0.3 | 0.1 |
| TIBOR | 0.057 | 0.0 | -2.2 |
| SIBOR | 0.809 | 1.3 | -0.8 |
| EIBOR | 0.324 | -3.8 | -12.6 |
| HIBOR | 0.140 | -1.1 | -19.1 |

| Sovereign CDS | Closing | MTD (bps) | YTD (bps) |
|---------------|---------|-----------|-----------|
| Abu Dhabi | 43.4 | 2.49 | 5.1 |
| Saudi Arabia | 53.7 | 2.53 | -12.0 |
| Kuwait | 51.0 | 1.02 | 4.1 |
| Bahrain | 275.3 | 24.99 | 28.8 |
| Oman | 261.7 | 16.47 | -105.5 |
| Turkey | 421.1 | 54.61 | 117.3 |

| Upcoming Key Events | |
|---------------------|-----------------------------|
| 11.10.2021 | Dubai PMI |
| 16.10.2021 | Abu Dhabi CPI |
| 21.10.2021 | Turkey Central Bank Meeting |
| 31.10.2021 | Bahrain CPI |

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OVERVIEW

In September, global investors remained on edge on speculation of a sooner-than-expected hike in interest rates by the Federal Reserve. Post the FOMC meeting where interest rates were unchanged, Fed chair Jerome Powell said the central bank could begin scaling back purchases as early as November, completing the process by mid-2022. Meanwhile, nine of 18 US central bank policymakers projected a hike in the Fed's fund rate in 2022. In June, the median projection indicated no rate increases until 2023. The hawkish tilt was also supported by raising the inflation projection for 2021 by 0.8pp to 4.2%, more than double its target rate. As the rate hike narrative grew louder through the month, the 10-year US Treasury yield saw a sharp spike of over 20bps to end the month at 1.54%. Meanwhile, appetite for US equities was dampened by concerns of persistent inflation and financing ceiling negotiations in Washington that sparked fears of a government shutdown. Faced by Republican opposition, congressional Democrats have been struggling to pave the way for President Biden's ambitious infrastructure and social spending plan. Meanwhile, the European Central Bank (ECB) maintained that an accommodative stance was still required to exit the pandemic safely and bring inflation sustainably back to 2%. On the other hand, Bank of England's (BOE) monetary policy committee members were ready to raise interest rates sooner than expected, if necessary, with the potential for a hike before the end of 2021. Overall, developed market central banks are gradually but cautiously shifting towards a hawkish monetary policy stance, keeping an eye out for inflation and the job market.

MACRO BACKDROP

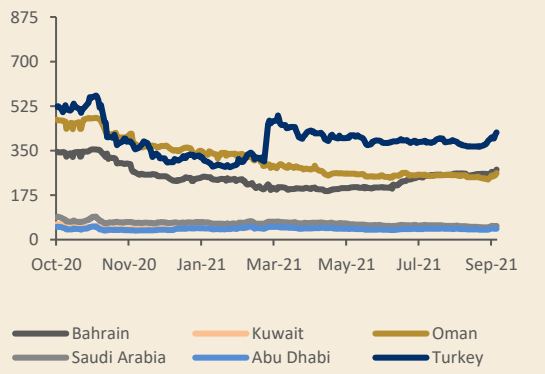
- US macro indicators painted a mixed picture of economic recovery. CPI remained well above the 5% mark in August at 5.3% y/y, albeit cooling off from 5.4% in July. Core CPI too increased 4% in August after advancing 4.3% in July. The flash estimate for manufacturing PMI eased to 60.5 in September from 61.1 in August, missing expectations of 62.5. Meanwhile, US retail sales surprised to the upside, rising 15.1% y/y. On the jobs front, nonfarm payrolls increased 235K in August, short of the 720K forecasted. The unemployment rate dipped from 5.4% to 5.2% in August.
- In the euro-area, inflation jumped to a decade high of 3%y/y in August as accumulated savings and release of pent-up demand saw consumer prices rise. The European Commission's monthly economic sentiment gauge too rose to 117.8 in September from 117.6 a month prior. Meanwhile, Eurozone preliminary manufacturing PMI arrived at 58.7 in September versus 60.3 expected and 61.4 in August.

KEY REGIONAL NEWS

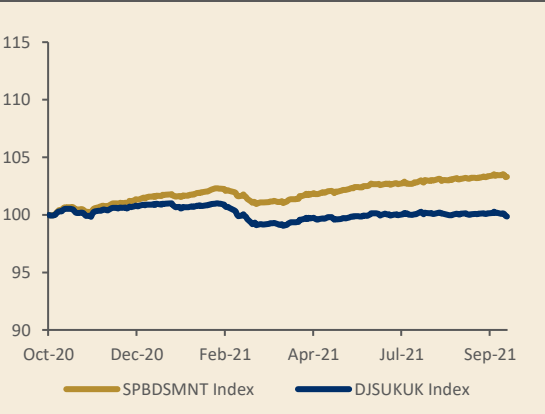
- S&P revised Oman's outlook to 'positive' from 'stable' due to higher oil prices and promising fiscal reform plans. The agency also affirmed Oman's rating at 'B+' *Source: Reuters*
- Maldives launched \$200mn at 10.5%, in a tap of existing Sukuk, reopening them for subscription to raise more funds *Source: Nasdaq*
- Bahrain to double value-added tax (VAT) to 10%. *Source: Zawya*

Sukuk – Tepid Sukuk market amidst oil price surge

Sovereign 5-year CDS spread movement

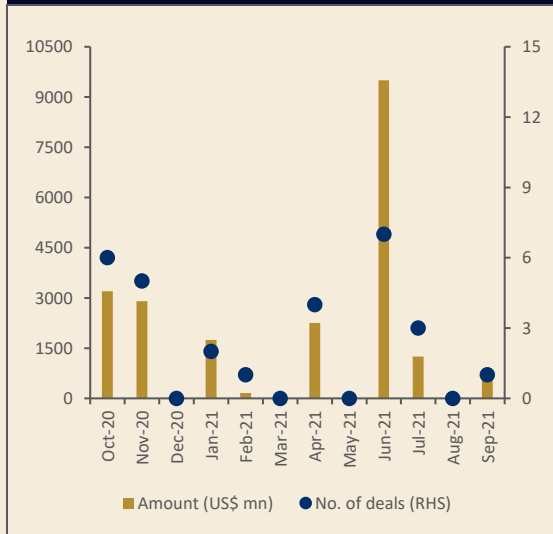


Sukuk index total return*



*Rebased to 100 on 1 October 2020

Monthly Sukuk new issuance volume



Development in regional CDS market

September 2021 witnessed the widening of CDS spreads across GCC economies on an MTD basis. CDS spreads of Bahrain and Oman widened the most by 24.9bps and 16.5bps, respectively, followed by Saudi Arabia (2.5bps), Abu Dhabi (2.5bps), and Kuwait (1.02bps). Turkish CDS spreads also widened by 54.6bps MTD. In an effort to maintain a strong disinflationary effect, Turkey's central bank unexpectedly slashed its base rate by a full percentage point to 18%, delivering stimulus which was long sought after by President Erdogan despite high inflation.

Lacklustre growth of Sukuk issuances

In September 2021, S&P Sukuk Mena index witnessed a marginal rise on an MTD basis, however Dow Jones Sukuk index contracted slightly. Senaat 25s' and Mumtalakat Bahrain 21s' were the best performers, with the yield to worst (YTW) tightening by 207bps and 124bps, respectively. On the contrary, Oman Government 24s' and DUGB 29s' were the worst performers, with YTW widening 269bps and 165bps, respectively. Among utilities, Saudi Electric 43s' continued to underperform as yield expanded by 151bps. As higher oil prices and improving economic conditions have reduced sovereign funding needs in GCC economies, the primary Sukuk market remained moderated thereby reflecting the decreased need for financing. However, it is expected that, new entrants and low penetration will fuel the long term growth.

Key developments

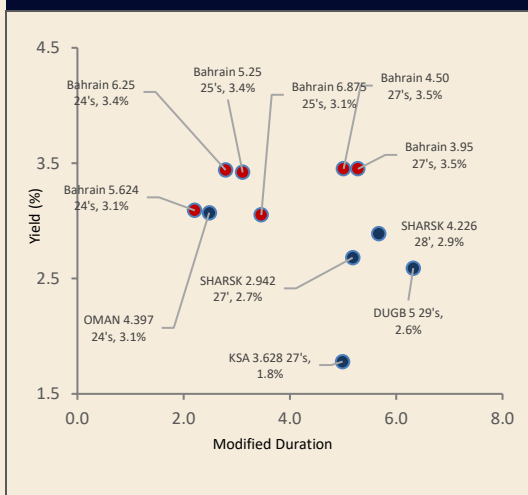
- **Saudi Electricity Company (SEC)**, the Kingdom's electric transmission monopoly, has secured a \$2.58bn financing in the form of term loan, for general corporate purposes and refinancing.
- **Ahli United Bank** sold \$600mn in five-year Sukuk with a profit sharing of 2.615%. The spread was tightened from initial price guidance of around 200 basis points over mid-swaps after the Sukuk drew more than \$1.3bn in orders.
- **Kuveyt Turk Katilim Bankasi A.S.**'s issued \$350mn subordinated fixed rate resettable sustainability Tier 2 Sukuk maturing December 2031, with a call date in December 2026. The Sukuk is world's first Sustainable Tier 2 Sukuk issuance.
- Kuwait-based **Warba Bank** is considering to issue another Sukuk to boost its capital base. The bank has received an initial approval from Central Bank of Kuwait to issue Additional Tier 1 Sukuk worth \$250mn.
- **Emaar Properties** has received the regulatory approval for its planned re-merger with Emaar Malls. This will see Emaar Malls' shareholders (excluding those in Emaar Properties) receiving 0.51 Emaar Properties shares for every one Malls share.

Bahrain – Daunting Fiscal Deficit remains the reason to worry

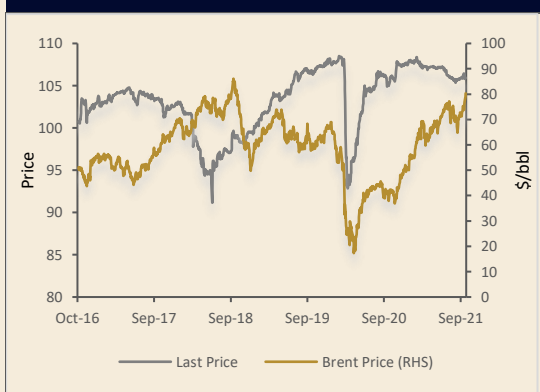
Bahrain

- Bahrain is one of the Gulf's most important commercial crossroads, with high dependence on oil and natural gas. Tourism, too, has proved to be a significant source of revenue. Apart from being the Gulf's leading financial center, the Kingdom also possesses a world-class infrastructure and a business-friendly and inclusive environment.
- After Bahrain's real GDP contracted 5.8% in 2020 from the fallout of coronavirus and a crash in oil prices, the International Monetary Fund (IMF) estimates Bahrain's economy to grow 3.3% in 2021 as both oil and non-oil activity picks pace. Based on an oil price assumption of \$50/bbl, the 2021-2022 budget forecasts the oil-producing state to grow 5% in 2021.
- During 1H21, net government revenue increased by 23% y/y to BHD119mn (\$2.9bn) This was primarily due to a 33% increase in oil revenue, while non-oil revenue increased by 4% y/y. Consequently, the deficit narrowed 35% y/y to BHD520mn. The fiscal deficit widened to 18% of GDP in 2020 and is expected to halve in 2021 driven by higher oil prices and measures implemented under the medium-term Fiscal Balance Program (FBP). As a result, the financing to GDP ratio is also forecasted to decline from 133% of GDP in 2020. In a recent development, Bahrain has unveiled plans to double its value-added tax to 10%, the Gulf's highest rate after Saudi Arabia, as it seeks to boost state revenue and curb one of the region's widest budget deficits.
- The Kingdom continued developing strategies to transform its tourism industry (7% of GDP) that had taken a severe hit due to the pandemic. In 2020, Bahrain secured \$492mn of tourism capital investment while leading the MENA region in attracting investment in the tourism sector in 2020. In 2021, new tourism programs by the Bahrain Tourism and Exhibitions Authority (BTEA) have been announced.
- The current account deficit ballooned to 9.4% of GDP in 2020. However, as services surplus gradually picks pace and oil prices to remain elevated, the current account deficit is expected to halve in 2021. The funding for the sizeable widening of Bahrain's current account deficit will primarily come from financing.
- In May 2021, S&P affirmed Bahrain's rating at 'B+' & revised outlook to 'Negative' from 'Stable' reflecting the risks related to the government's ability to service external financing, as fiscal reforms are considered inadequate to bring stability. At the same time, Bahrain's external and monetary positions remained weak as foreign exchange reserves were under pressure. While Bahrain Sukuks are attractively placed against its peers, the close alignment of their performance with oil prices may eventually affect the yields going forward, owing to the improvement in oil prices.

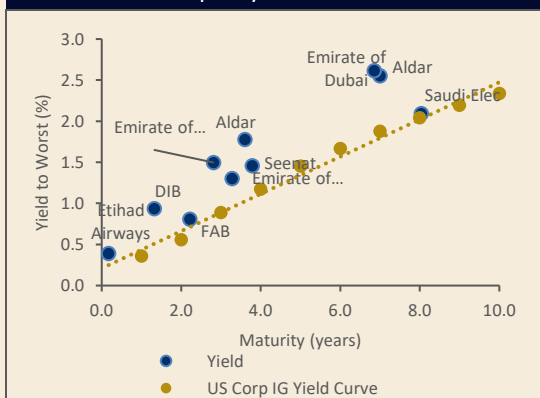
Bahrain Sukuks Yield Curve



Bahrain 5.624% 24' Sukuk vs Oil Price

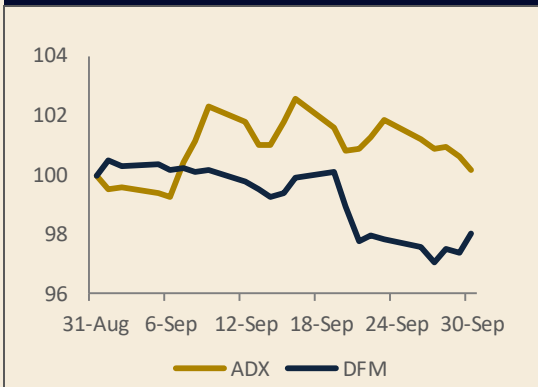


Sukuk vs. US Corp IG yield curve



Equities: Higher volatility amid multiple worries

Regional index movement*



*Rebased to 100 on August 31

DFM top five gainers and losers

| Gainers | MTD | Losers | MTD |
|----------|-------|--------|--------|
| NIH | 71.8% | MAZAYA | -26.1% |
| ALFIRDOU | 24.6% | DRC | -15.6% |
| MASQ | 16.7% | ARMX | -12.2% |
| DIN | 14.9% | ITHMR | -11.0% |
| OIC | 14.8% | SALAMA | -10.8% |

ADX top five gainers and losers

| Gainers | MTD | Losers | MTD |
|---------|--------|----------|--------|
| SG | 150.0% | PALMS | -23.8% |
| RAPCO | 83.8% | EASYLEAS | -21.6% |
| NMDC | 27.3% | JULPHAR | -18.5% |
| ZS | 20.4% | RAKCC | -14.3% |
| ALQUDRA | 18.3% | ARKAN | -14.0% |

UAE: Local indices generated mixed returns

Global equities witnessed volatility MTD (Aug 25 to Sep 23) on higher risk aversion due to multiple factors including contagion risk related to Evergrande's financial troubles, inflation worries, increasing financial yields and rising possibility of gradual rollback of monetary stimulus. However, ADX maintained strong uptrend owing to higher oil prices and also driven by strong buying in index heavyweight sectors such as Banks (+6.3%) and Telecommunication (+2.1%). In contrary, DFM closed lower, worst performing regional market MTD, led by weakness in key sectors Real Estate (-1.6%) and Banks (-1.2%). In terms of value, foreign investors bought stocks worth of AED1,293mn on ADX and AED577mn worth of stocks on DFM, on a net basis. The average daily volume increased by 12% MoM on DFM while it was mostly flat (-1% MoM) on ADX. At stocks level, key gainers were FAB (+8.2%), ETISALAT (+2.2%), ADCB (+2.0%) while key losers were DIB (-4.7%) and EMAAR (-2.2%). ADNOC drilling jumped 33% to AED3.06/share from offering price of AED2.30/share on listing day (Oct 3) before closing the day at AED2.95/share (+28%) on ADX with solid volumes of 242mn shares.

On YTD basis, ADX (+55%) remains the best performing equity market globally supported by continued buying momentum in key index stocks, steadily higher oil prices and optimism over economy recovery. However, DFM (+14%) is still way behind among its key regional peers owing to uncertainty over demand recovery in the domestic real estate sector.

On technical side, the ADX index has formed bearish engulfing pattern, which suggests a downtrend in the future. Furthermore, the index has witnessed negative cross-over between 50- & 100-SMAs. Henceforth, the index may enter correction phase before bouncing off from nearest support level of 7,580. The DFM index is currently in downward trajectory after facing resistance at 2,916 mark. Moreover, index is trading below its negatively stacked moving averages and may find its near term support at 2,797, 2,736 & 2,647 levels.

Most read regional company headlines

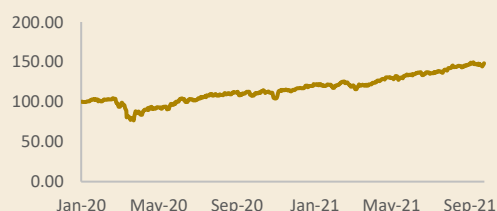
| | |
|----------|--------------------------------------------------------------------------|
| ARMX | Dubai courier Aramex in talks to buy Turkey's MNG Kargo |
| FAB | First Abu Dhabi is said to start sale of \$1bn payments arm |
| ETISALAT | UAE's Etisalat secures approvals to raise foreign ownership limit to 49% |

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 | 7,698.82 | 0.2 | 52.6 | 362.9 | 231.7 | 1,377.7 | 23.9 | 2.4 | 3.0 |
| Dubai | 2,845.49 | -2.0 | 14.2 | 84.4 | 32.6 | 48.5 | 21.3 | 1.0 | 2.8 |
| Saudi Arabia | 11,495.76 | 1.6 | 32.3 | 2,676.3 | 160.1 | 1,735.0 | 27.8 | 2.5 | 2.3 |
| Kuwait (All shares) | 6,864.83 | 1.1 | 23.8 | 132.1 | 424.0 | 203.0 | 27.6 | 1.7 | 1.9 |
| Oman | 3,942.50 | -0.6 | 7.8 | 13.8 | 13.1 | 6.8 | 11.7 | 0.8 | 4.0 |
| Bahrain | 1,705.56 | 3.7 | 14.5 | 27.4 | 5.6 | 2.2 | 12.0 | 0.9 | 3.2 |
| Qatar | 11,485.23 | 3.5 | 10.1 | 158.8 | 88.8 | 136.1 | 17.9 | 1.8 | 2.6 |

Mutual funds –Mixed performance across asset classes

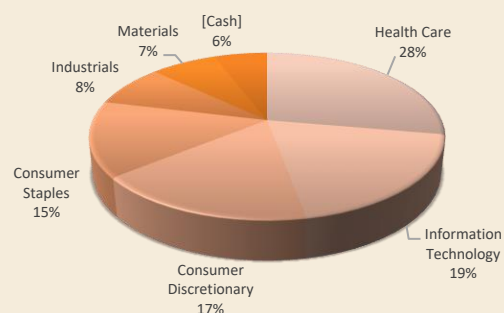
COMGEST GROWTH EUROPE S "USD"



COMGEST GROWTH EUROPE S "USD" (USD) ACC

**Rebased to 100 on Jan 01, 2020

COMGEST GROWTH EUROPE S "USD"



Selective equity funds generated superior returns

- From our coverage of 31 funds, 20 funds closed in the green on MTD basis (Aug 25 to Sep 23), collectively led by equity and finance funds, on the back of the uptrend witnessed in selective global markets despite some hiccups. The global economy stands continue to recover in the foreseeable future from 2020 lows driven by vaccinations and supportive policy actions undertaken since beginning of COVID-19. However, rising price level owing to better demand and limited supply coupled with likely gradual withdrawal of monetary support in the coming periods may delay the growth recovery.
- Emirates India Equity Fund (+8.5% MTD) led the basket of our covered mutual funds. The performance was mainly attributed to the high investment allocation in Health Care, Information Technology, Consumer Discretionary and Industrial sectors of India, which maintained its growth and contributed to the returns.

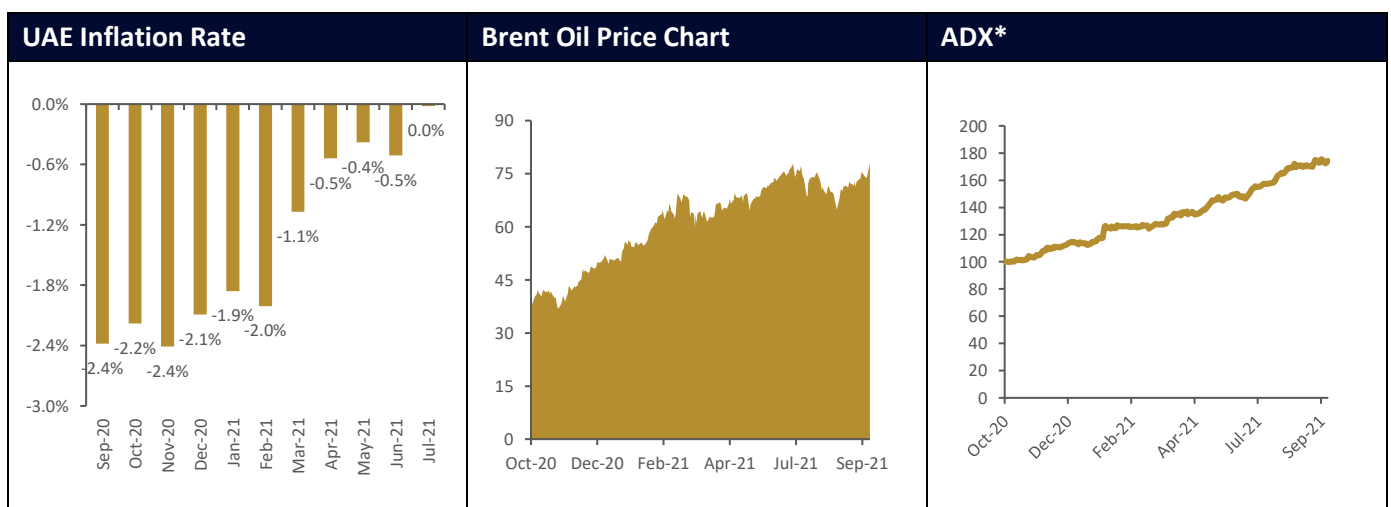
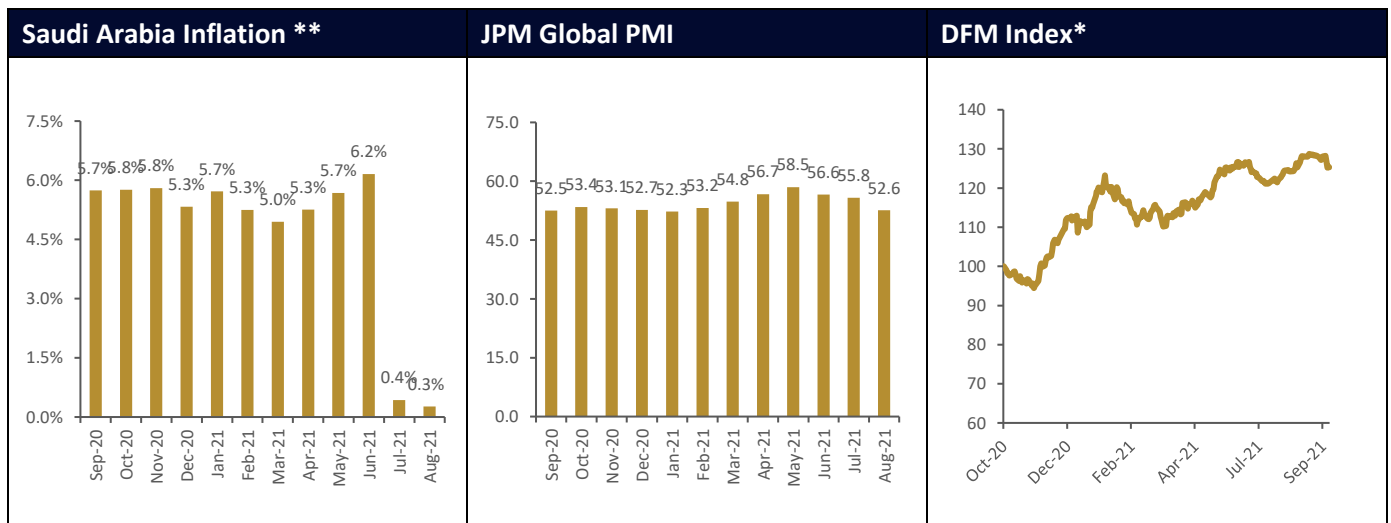
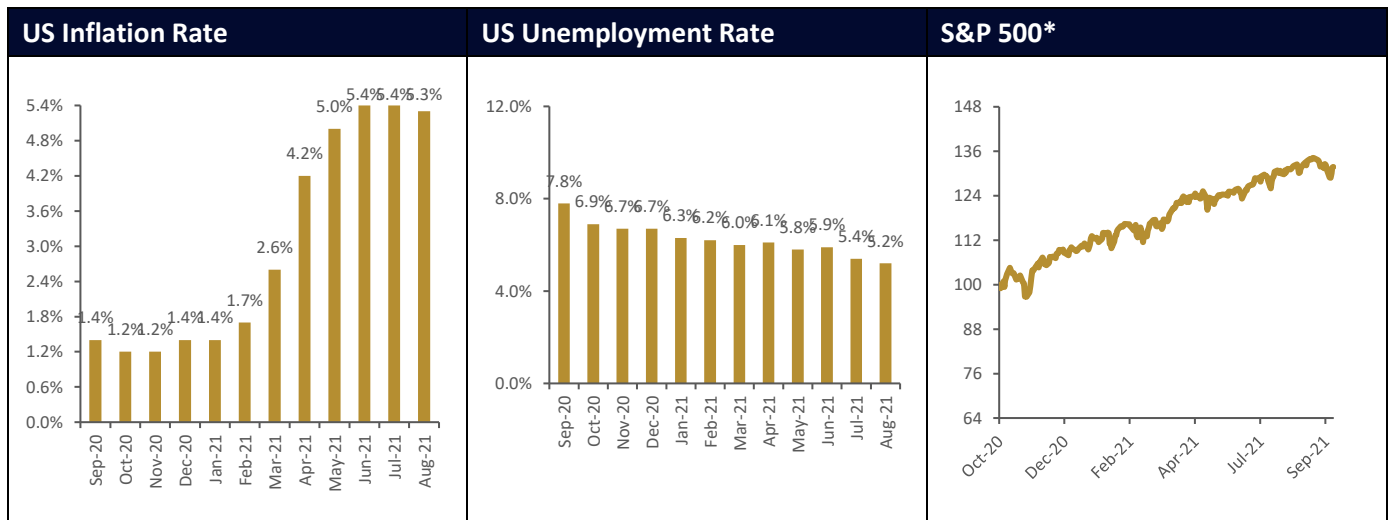
AlAhli North America Index Fund declined (-2.6% MTD). The underperformance can be attributed to the high exposure to the Information Technology sector, which performed poorly MTD

Comgest Growth Europe S "USD"

Comgest Growth Europe S "USD" is an open ended Shariah-compliant equity fund that invests in the companies headquartered or carrying out their business activities majorly in Europe to generate long-term capital growth (11.6% return since inception; exceeding the benchmark's return of 9.9% as on Aug 2021). The asset allocation comprises of 94% Equity and 6% cash. Geographically, the fund is well diversified with allocation in Switzerland (24.0%), France (18.0%), Netherlands (13.9%), Denmark (11.4%) and Germany (9.4%), among others. As on Aug 2021, the fund generated YTD return of 20.6% versus benchmark return of 16.4%. The fund offers an opportunity to the local investors to invest in leading companies across Europe.

List of mutual funds

| Fund names | ISIN | NAV | Currency | MTD | YTD |
|---------------------------------------------------------|--------------|-------|----------|--------|--------|
| AlAhli Saudi Trading Equity Fund | AFB007482007 | 14.61 | SAR | 2.71% | 34.20% |
| Emirates India Equity Fund | LU1654400644 | 14.36 | USD | 1.63% | 24.54% |
| Emirates Global Sukuk Fund Ltd | JE00B5V8LK49 | 15.88 | EUR | 1.60% | 5.32% |
| Emirates India Equity Fund | LU1484867434 | 18.84 | USD | 1.60% | 27.32% |
| Franklin Global Sukuk Fund | LU0923115892 | 13.79 | EUR | 1.55% | 5.59% |
| AlAhli GCC Trading Equity Fund | AFB007482106 | 1.39 | SAR | 1.12% | 28.45% |
| AZ Multi Asset - AZ Islamic - Global Sukuk "A-ME"(USD) | LU1435409369 | 4.66 | USD | -0.06% | -2.88% |
| AZ Multi Asset - AZ Islamic - Global Sukuk "A" (AED) | LU1590082746 | 4.63 | AED | -0.06% | -2.92% |
| AZ Multi Asset - AZ Islamic - Global Sukuk "A-ME" (USD) | LU1435409286 | 5.98 | USD | -0.07% | 1.10% |
| AZ Multi Asset - AZ Islamic - Global Sukuk "A" (AED) | LU1590082662 | 5.73 | AED | -0.07% | 1.09% |



All figures and charts across the report are sourced from Bloomberg and ADIB research. Data is as on 30 September 2021

*Rebased to 100 on 1 October 2020

**Previous periods impacted by VAT introduction since July 2020

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