Monthly Market Insights

November 2021

Macro update – Weak growth does little to quell Fed rate hike

Asset Classes	Closing	MTD	YTD
S&P 500	4605	5.7%	24.4%
MSCI EM	1265	1.1%	-3.0%
MSCI World	3175	4.8%	18.9%
MSCI GCC	751	3.6%	36.5%
Oil	84	7.0%	67.8%
Gold	1783	3.3%	-8.2%
US Treasury Yield	1.552	4bps	64bps

Key Interest Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.132	-0.1	-10.5
EURIBOR	-0.553	-0.6	-0.7
TIBOR	0.057	0.0	-2.2
SIBOR	0.829	2.0	1.2
EIBOR	0.305	-1.9	-14.5
HIBOR	0.154	1.4	-17.7

Sovereign CDS	Closing	MTD (bps)	YTD (bps)
Abu Dhabi	42.8	-0.57	4.5
Saudi Arabia	50.3	-3.24	-15.3
Kuwait	49.6	-4.04	2.7
Bahrain	299.8	18.09	53.3
Oman	255.0	-11.10	-112.3
Turkey	464.0	29.94	160.2

Upcoming Key Events	
10.11.2021	Oman PMI
17.11.2021	Turkey Central Bank Meeting
20.11.2021	Qatar Trade Balance
20.11.2021	Kuwait CPI

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OVERVIEW

In October, speculations over the timing of a Federal Reserve rate hike remained rife, supported by macro indicators that suggest recovery remains on track. Latest data reveals that US inflation rose to a 13-year high, jobless claims declined to a fresh pandemic low, consumer confidence rebounded and new home sales and retail activity surged. More notably, investors chose to overlook weak GDP growth figures for Q3, instead focusing on the inflation components of the report. The advance estimate showed that the economy grew 2% in Q3, its slowest pace in over a year. Moreover, this comes after comments from Fed chair Jerome Powell who supported views of reducing support to the economy by scaling back asset purchases, but remained reluctant on raising rates too soon. While acknowledging rising inflation risks well into next year, Powell played down the possibility of an earlier rate hike amidst calls for 'patience' as the job market still remained 5 million short of pre-pandemic levels. Despite this, markets seem to be pricing in rate hikes by mid-2022, indicated by the sell-off in US Treasuries, that saw the 10-year benchmark yield rise as high as 1.68%. Nevertheless, major US equity indices moved higher driven by a boost from the technology and healthcare sector and bets of a solid third-quarter earnings season. Further, the policy divergence between the Fed and European Central Bank grew wider as the latter maintained the view that inflation was transient, pushing back market bets of a 2022 rate hike. Meanwhile, rising inflation expectations have raised Bank of England's prospects of a rate hike by end-2021 itself.

MACRO BACKDROP

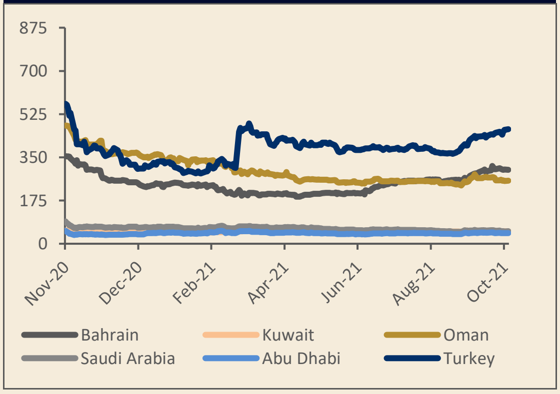
- US macro indicators signaled a modest pace of economic recovery. CPI remained elevated in September at 5.4% y/y, from 5.3% reported in August. Core CPI too increased 4% y/y in September, matching the gain in August. The flash estimate for manufacturing PMI eased slightly to 59.2 in October from 60.7 in September, still remaining above the 50-mark. On the jobs front, however, nonfarm payrolls increased merely 194K in September, short of the 500K forecasted. The unemployment rate however dipped from 5.2% to 4.8% in September.
- In the euro-area, inflation jumped to a 13-year high of 3.4% y/y in September, driven by surging energy prices. The European Commission's monthly economic sentiment gauge surprised on the upside, approaching July's all-time high, to 118.6 in October from 117.8 a month prior.

KEY REGIONAL NEWS

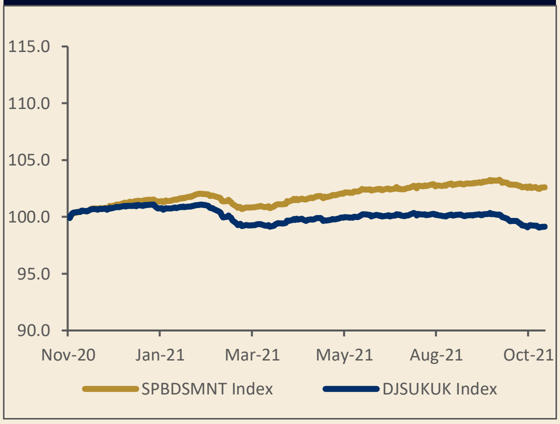
- Fitch affirmed Abu Dhabi at "AA" with stable outlook resonating with the strong fiscal and external metrics and high per capita GDP and improving economic policy framework. Source: *Fitch*
- UAE issued its maiden sovereign fixed income securities worth $4.0bn in a bid to get fresh financing. The issuance was oversubscribed by 5.6x times, vouching for investor appetite. Source: *Bloomberg*

Sukuk – Continued moderation in the issuances

Sovereign 5-year CDS spread movement

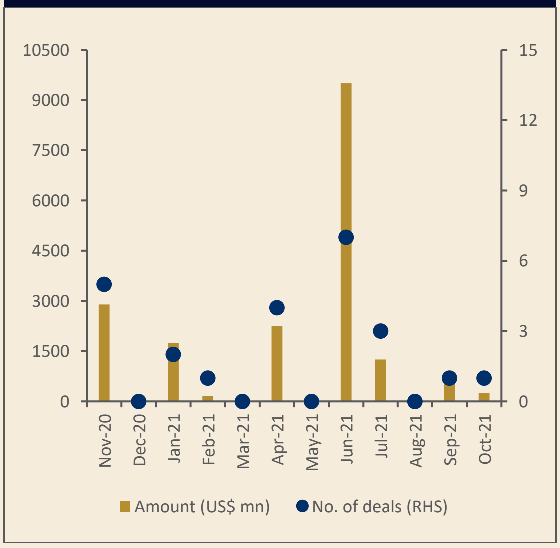


Sukuk index total return*



*Rebased to 100 on 1 November 2020

Monthly Sukuk new issuance volume



Development in regional CDS market

In October 2021, CDS spreads across GCC economies except Bahrain tightened on an MTD basis. CDS spreads of Oman tightened the most by 11.1bps, followed by Kuwait (4.0bps), Saudi Arabia (3.2bps) and Abu Dhabi (0.6bps). CDS spreads in Bahrain widened by 18.09bps. Turkish CDS spreads also widened by 29.9bps MTD. In an unexpected move, Turkey's central bank surprisingly slashed its base rate by 200bps to 16% after dropping the rate to 18% in September 2021, adding that it has limited room left for further reductions this year so the chances of further slashing seem feeble

Sukuk issuances continue to be moderated

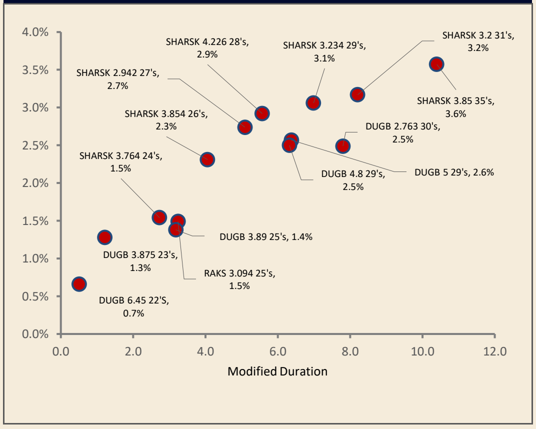
In October 2021, both S&P Sukuk Mena index and Dow Jones Sukuk index contracted slightly. Mumtalakat Bahrain 21s' and Qatar Government 23s' were the best performers, with the yield to worst (YTW) tightening by 230bps and 207bps, respectively. On the contrary, DUGB 29s' and Investment Corp of Dubai 27's were the worst performers, with YTW widening 148bps and 110bps, respectively. Among utilities, Saudi Electric 43s' continued to underperform as yield expanded by 142bps. October turned out to be another sluggish month for Sukuk issuances with only one notable issuance from QIB for $250mn. However, the slowing down of Sukuk issuance is reckoned as temporary phenomenon and the momentum is expected to stay intact after facing the short term headwinds in the form of additional AAOIFI-compliance complexities for Sukuk, and reduced borrowing needs and lesser fiscal deficits for some of the Sukuk-issuing sovereigns due to higher oil prices. Moreover, before FED starts winding down its pandemic stimulus, more and more borrowers are expected to tap the investors to raise funds at cheaper rates.

Key developments

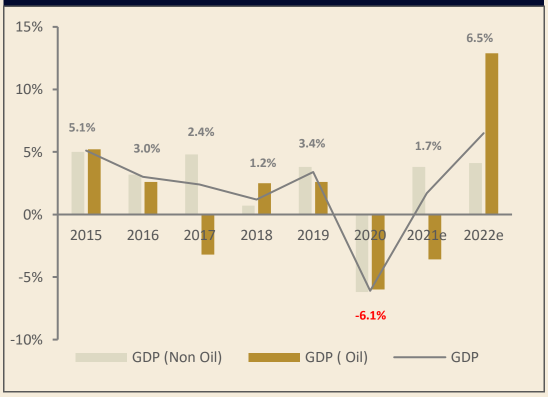
- Fitch upgraded **Maldives** to 'B-' from 'CCC' reflecting a stronger recovery in the tourism and an improved refinancing outlook for the sovereign's external financing over the next few years.
- **Etihad Airways**, has raised $1.2bn in the first sustainability-linked financing tied to ESG targets in global aviation. The transaction is the largest sustainable financing in the airline's history.
- **Dubai Islamic Bank** reported a 20% surge in the 3Q21 net profit driven by the strong economic recovery in the economy. The bank's profit was fuelled by 83% jump in income from property held for development and sale, & a 325% surge in income from investment property portfolio.
- **DP World** and Britain's development finance agency CDC Group have planned to jointly invest up to $1.72bn in logistics infrastructure in Africa over the next several years, starting with modernising three ports.
- **Emirates Islamic bank** reported a net profit of AED804mn for 9M21, up 358% y/y. owing to higher non-funded income and a significant reduction in the cost of risk. Bank's Tier 1 ratio was at 19.2% and capital adequacy ratio at 20.3% at the close 3Q21 end.

UAE – Government initiatives to usher economic growth

UAE Sukuks Yield Curve

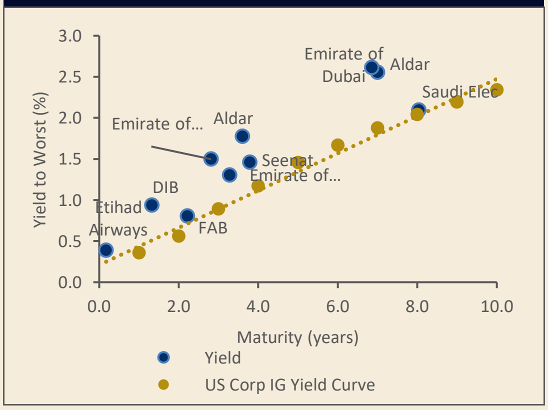


UAE GDP Movement



The numbers denote change in the overall GDP per year (oil + non-oil)

Sukuk vs. US Corp IG yield curve

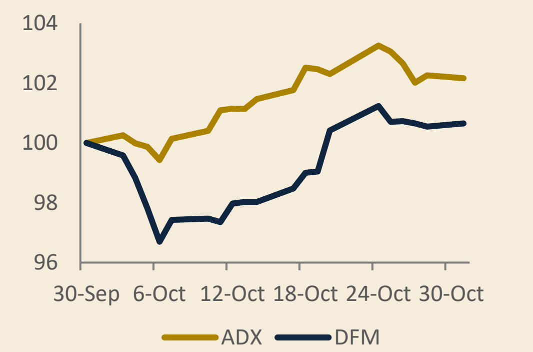


United Arab Emirates

- UAE is witnessing improved Economic conditions owing to a rebound in demand, supporting the outlook for recovery. UAE GDP is expected to grow by 1.7% in 2021 and 6.5% in 2022, after contracting by 6.1% in 2020, its worst performance in over three decades.
- The oil sector recovery is expected to contribute significantly to GDP growth in 2022, expanding by almost 13%. UAE's production baseline will be bumped up to over 3.5m b/d from May 2022, from just under 3.2m b/d currently, offering the potential for a faster rise in oil output in H2 2022. The non-oil recovery is stemming from expansionary government policy is providing impetus to activity. The non-oil GDP growing by 3.8% and 4.1% in 2021 and 2022, respectively.
- The footfall from Expo 2020, which began in Dubai in October, is important for the non-oil economy growth. The removal of the UAE from travel bans lists of countries like the UK and Saudi Arabia, important origin markets, is timely, while the acceptance of vaccinated travellers in much of Europe is positive for the event's success. Therefore, momentum should pick up and Expo 2020 is expected to substantially lift travel and tourism, which accounts for about 16% of GDP in the UAE.
- Amidst the growing regional competition, the UAE remains committed to an open and inclusive growth and various efforts are being made to enhance the country's standing in attracting and retaining foreign capital in a bid to double the size of the economy in the next 10 years. Among the Dubai 2040 plan initiatives, which sees the city's population growing by over 75% in the next two decades, the 'Operation Dh300bn' will see the industrial sector's contribution to GDP rose from 1.3%.
- While the overall sentiment is still battered by the uncertainties looming over COVID-19 recovery, the UAE authorities have also stepped in to extend support programmes announced in 2020. The government is confident in building up financial resources with the improved outlook for oil prices combined with the prospect of higher oil output. The UAE central bank's zero-cost loan facility under the Targeted Economic Support Scheme runs until mid-2022, with loan deferral extended to the end of 2021, providing the much needed respite to the borrowers.
- Irrespective of the jolts provided by the COVID-19 pandemic, The investor appetite for the UAE was evident from the fact that the recent (October 2021) maiden multi-tranche sovereign fixed income securities issued by the UAE as a federation was oversubscribed 5.6x and was also rated favourably by prominent rating agencies Moody's and Fitch at 'Aa2' and 'AA-' respectively.
- Amongst the sovereign Sukuk issuances in UAE thus far, the Sharjah Sukuks look more attractive when compared to the Sukuks issued by Dubai and RAK. Moreover, in the wake of Tapering by Fed, the shorter duration Sukuks provide a good investment option over their longer duration counterparts in the midst of possible rising interest rates.

Equities: On upward momentum despite continued volatility

Regional index movement*



*Rebased to 100 on September 30

DFM top five gainers and losers

Gainers	MTD	Losers	MTD
NIH	38.8%	ALFIRDOU	-38.4%
NIND	32.1%	ASNIC	-27.0%
AAN	25.2%	ALSALAMS	-9.1%
ARMX	23.3%	DU	-6.8%
DNIR	22.4%	GULFNAV	-5.3%

ADX top five gainers and losers

Gainers	MTD	Losers	MTD
RAKCC	126.7%	RAPCO	-31.8%
ALQUDRA	108.5%	TKFL	-24.6%
RAKWCT	61.3%	NCTH	-19.0%
MANAZEL	38.7%	RPM	-14.5%
ADNOCDRI	30.9%	ORDS	-10.8%

UAE: Both ADX and DFM generated positive returns

Most global equity markets gained MTD (Sep 25 to Oct 25) on account of strong US economic data, good corporate earnings, solid liquidity and also driven by optimism over progress on the US infrastructure bill. However, volatility remained higher owing to increasing risks of monetary tightening and companies' margin pressures due to rising price levels on account of sharp rise in commodity prices and supply side bottlenecks. Locally, both ADX and DFM closed in positive territory tracking global markets, steadily higher crude oil prices and also supported by rally in index heavyweight banking sector (ADX: +1.0%, DFM: +0.9%). In terms of value, foreign investors bought stocks worth of AED754mn on DFM while they sold stocks worth AED1,085mn on ADX, on net basis. The average daily volume decreased by 4.6% MoM and 31.6% on ADX and DFM, respectively. At stocks level, key gainers were ADNOC drilling (+28.7%), ADCB (+10.4%), ETISALAT (+4.1%) and DIB (+3.7%) while key losers were EMIRATES NBD (-2.1%) and FAB (-0.8%). Fertiglobe, a joint venture between ADNOC and Netherlands-listed OCI, jumped 22% to AED3.12/share from offering price of AED2.55/share on listing day (Oct 27) before closing the day at AED3.00/share (+18%) on ADX with solid volumes of 204mn shares.

On the technical side, the ADX index has in upward trajectory reaching new 52-week high level; however, the index has been under corrective pressure in last few trading sessions. Furthermore, the index has closed below negatively stacked moving averages, which may indicate reversal of trend. Support levels are – 7,840, 7,808, & 7,775. Like its counterpart, DFM index has also witnessed strong rally and has faced resistance at 2882 level. The index may continue its upward momentum if it manages to break the resistance level. Resistance levels are – 2,882, 2,905, & 2,917.

Most read regional company headlines	
UPP	UAE starts 'major' probe into Dubai developer Union Properties
NBS	Sharjah Islamic Bank to raise foreign ownership limit to 40%
EMIRATES	EMIRATES posts 61% YoY rise in net profit to AED2505.5mn in 3Q2021
RAKBANK	RAKBANK posts 72.8% YoY rise in net profit to AED228.2mn in 3Q2021

Performance of regional markets

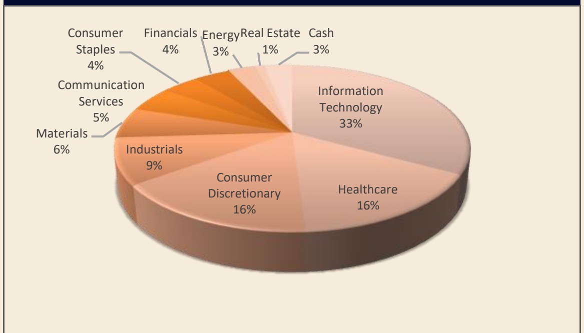
Country	Last close	Index changes %		MCap US$bn	Volume mn shrs	Turnover US$ mn	P/E (x) 12M	P/B (x) 12M	Div Yld 12M %
		1M	YTD						
Abu Dhabi	7,865.12	2.2	55.9	382.9	331.7	364.8	23.1	2.4	2.9
Dubai	2,864.21	0.7	14.9	84.1	306.6	47.9	20.6	1.0	2.7
Saudi Arabia	11,704.14	1.8	34.7	2,803.7	132.4	1,531.2	26.0	2.5	2.2
Kuwait (All shares)	7,107.72	3.5	28.2	136.7	660.4	294.9	27.4	1.7	1.9
Oman	4,075.00	3.4	11.4	14.4	7.8	2.6	11.0	0.8	3.8
Bahrain	1,743.06	2.2	17.0	28.0	2.8	1.4	10.1	0.9	3.1
Qatar	11,764.77	2.4	12.7	162.2	110.3	83.3	16.4	1.8	2.5

Mutual funds – Mixed performance continues on multiple risks

EMIRATES WORLD OPPORTUNITIES "A" (USD) ACC

**Rebased to 100 on Jan 01, 2020

EMIRATES WORLD OPPORTUNITIES "A" (USD) ACC



Selective equity funds outperformed

- From our coverage of 31 funds, 8 funds closed in the green on MTD basis (Sep 25 to Oct 25), led by equity funds, due to the strong buying in selective markets led by Saudi and the US. The investor sentiments remained positive with expectations of strong earnings growth despite concerns about high inflation rate, spike in the finance yields in the US, slowdown in global economic growth led by China and rising fuel prices. The vaccination drive has benefited the advanced economies to recover at an accelerated rate; however, the global economic growth is affected by slower growth in developing and emerging countries due to limited access to the vaccines.
- AlAhli Saudi Trading Equity Fund (+8.10% MTD) led the basket of our covered mutual funds. The performance was mainly attributed to the high investment allocation in Materials, Financial and Real Estate sectors, which contributed to the returns.
- Emirates India Equity Fund declined (-3.8% MTD). The underperformance can be attributed to the high exposure to the IT and Health Care sector of India, which performed poorly during the period.

Emirates World Opportunities "A" (USD)

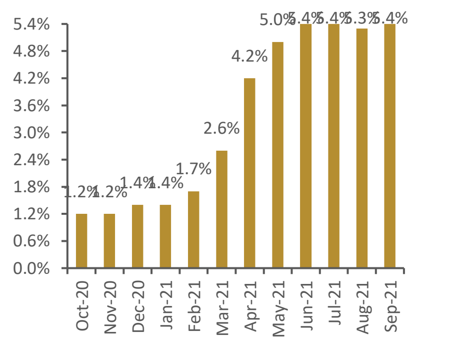
Emirates World Opportunities "A" (USD) is an open-ended Shariah-compliant equity fund that invests in the companies carrying out their business activities globally to generate long-term capital growth (3-year return: +25.1% as of September 2021). The asset allocation comprises of ~97% Equity and ~3% cash with the major investment allocation in the Information Technology (33%) Health Care (16%), Consumer Discretionary (16%) and Industrials (9%) sectors. The global investments are concentrated in the US (67%), France (8%), Netherlands (6%), and China (5%), among others. As of September 2021, the fund has been performing exceptionally well (+14.3% YTD), mainly due to the momentum witnessed in the equity market and majorly in the IT and Healthcare sectors

List of mutual funds

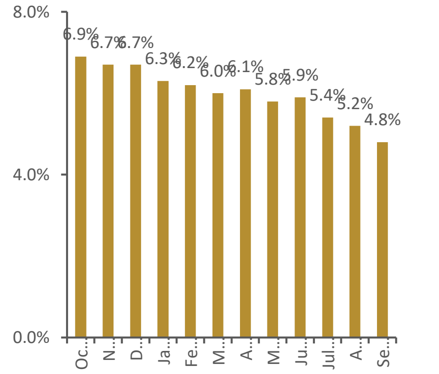
Fund names	ISIN	NAV	Currency	MTD	YTD
AlAhli North America Index Fund	AFB007013901	8.16	USD	8.17%	23.01%
Comgest Growth Europe S	IE00B3ZL9H82	32.51	USD	7.15%	21.53%
Comgest Growth Europe S	IE00B4ZJ4634	37.15	EUR	6.33%	27.36%
Emirates World Opportunities Fund	LU1060357412	14.07	USD	6.14%	20.45%
Old Mutual Global Islamic Equity	IE00BYMM2054	16.89	USD	5.69%	21.42%
Emirates World Opportunities Fund	LU1654397329	11.33	USD	5.10%	15.38%
AlAhli Saudi Trading Equity Fund	AFB007482007	15.15	SAR	3.66%	39.11%
AlAhli GCC Trading Equity Fund	AFB007482106	1.44	SAR	3.22%	32.59%
Templeton Shariah Global Equity	LU0792757196	15.16	USD	2.71%	6.69%
Mashreq Al-Islami Income Fund	AEDFXA1T6467	19.10	USD	0.33%	-1.08%

Monthly Market Insights

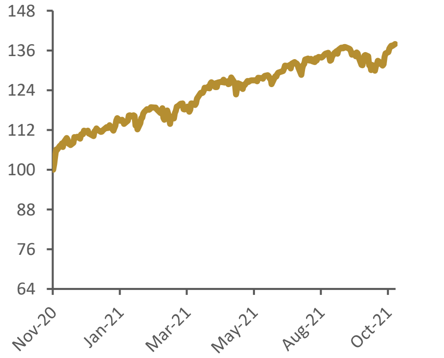
US Inflation Rate



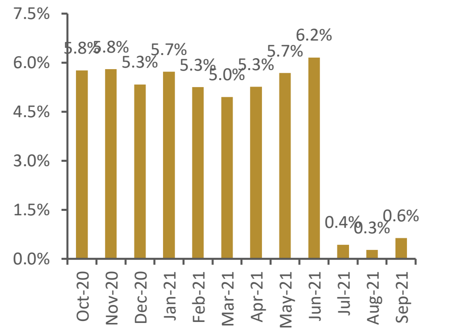
US Unemployment Rate



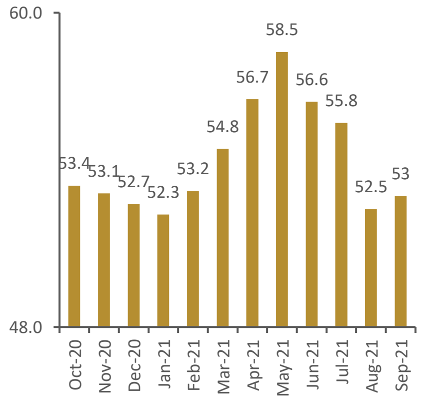
S&P 500*



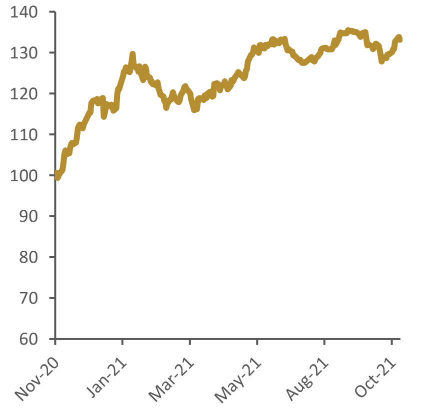
Saudi Arabia Inflation **



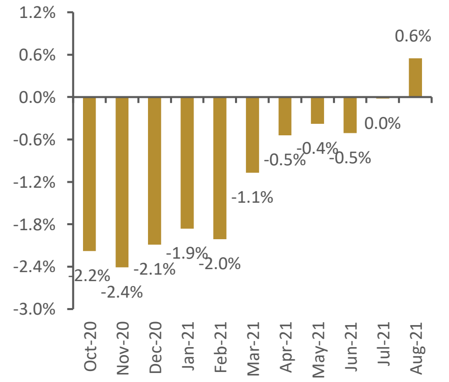
JPM Global PMI



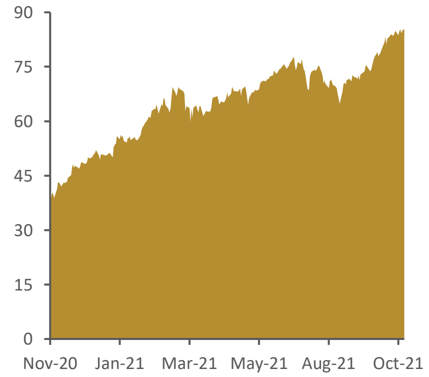
DFM Index*



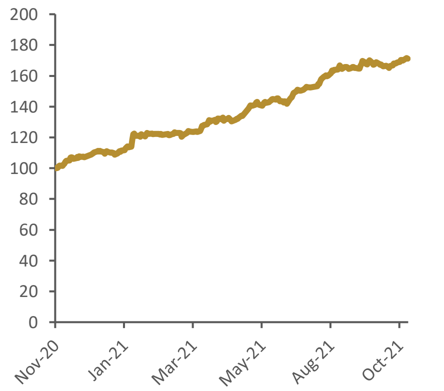
UAE Inflation Rate



Brent Oil Price Chart



ADX*



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

*Rebased to 100 on 1 November 2020

**Previous periods impacted by VAT introduction since July 2020

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