



Monthly Market Insights

September 2021

Macro update – Fed gives green signal to year-end taper

Asset Classes	Closing	MTD	YTD
S&P 500	4523	2.9%	22.2%
MSCI EM	1285	0.6%	-1.5%
MSCI World	3147	2.5%	17.8%
MSCI GCC	706	3.4%	28.3%
Oil	72	-4.9%	43.2%
Gold	1810	-0.2%	-6.8%
US Treasury Yield	1.309	9bps	40bps

Key Interest Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.120	0.2	-11.7
EURIBOR	-0.548	-0.4	-0.2
TIBOR	0.057	0.0	-2.2
SIBOR	0.796	0.1	-2.1
EIBOR	0.362	5.5	-8.8
HIBOR	0.151	0.3	-17.9

Sovereign CDS	Closing	MTD (bps)	YTD (bps)
Abu Dhabi	40.9	-1.65	2.6
Saudi Arabia	51.1	-5.40	-14.5
Kuwait	50.0	0.02	3.1
Bahrain	250.3	0.09	3.8
Oman	245.3	-5.52	-122.0
Turkey	366.5	-17.4	62.7

Upcoming Key Events	
09.09.2021	Dubai CPI
15.09.2021	Saudi Arabia CPI
21.09.2021	FOMC Meeting
23.09.2021	Turkey Central Bank Meeting
30.09.2021	Bahrain GDP 2Q21

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OVERVIEW

Pandemic-related developments, commentary from Federal Reserve's Jerome Powell, and inflation data largely dictated the financial market trajectory in August. Although financial markets began pricing in a reversal in Fed policy, uncertainty over an economic rebound resurfaced amidst rising infections from Delta variant. In addition, US consumer prices eased, and the minutes of the Fed's July meeting showed that the employment benchmark for decreasing support for the economy "could be reached this year," but had not yet been satisfied, taking the pressure off the Fed to scale back the purchase of fixed income securities earlier than anticipated. These developments helped stall the sharp sell-off in US Treasuries after the 10yr yield rose to a one-month high of 1.36%. Consequently, hopes of recovering quickly from the pandemic saw Wall Street's main indexes hit a record high. The buying-spree continued even after Powell's speech at the highly-awaited Jackson Hole Symposium offered no new signals on when the Fed plans to cut its asset purchases beyond saying it could be "this year." Meanwhile, in Europe, the divergence between the European Central Bank (ECB) and the Fed became stark as the former continued to maintain a dovish tone in light of the temporary spike in inflation and rising infections in European countries, largely depicting what looks like a fourth wave.

MACRO BACKDROP

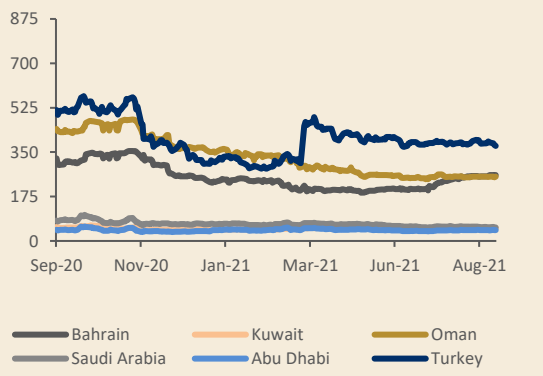
- US macro indicators painted a mixed picture of recovery. Consumer price increase slowed in July, rising 0.3% in July (5.4% y/y) from a 0.9% rise in June. Meanwhile, core inflation however jumped 0.3% m/m, missing forecasts of a 0.4% m/m rise. Further, retail sales drop was a worse-than-expected 1.1% m/m in July from a revised 0.7% increase in the month prior. Although in expansionary territory, delta concerns and supply shortages saw preliminary US Manufacturing PMI retreat to 61.2 in August from 63.4, short of 62.8 expected. On the jobs front, non-farm payrolls surpassed expectations, rising 943,000 in July, while the unemployment rate slipped from 5.9% in June to 5.4% for July.
- In the Eurozone, manufacturing activity cooled off, with preliminary PMI arriving at 61.5 in August as against forecast of 62 and 62.8 in July. Meanwhile, CPI for July met market expectations of -0.1% decline from a 0.3% increase in June. Similarly, the Eurozone ZEW Economic Sentiment for August fell to 42.7 as compared to 61.2 a month prior and below the consensus forecast of 72.0.

KEY REGIONAL NEWS

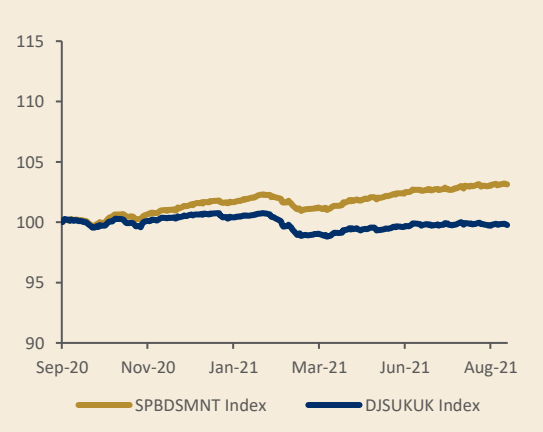
- Fitch Ratings affirmed Turkey's rating at 'BB-' with a Stable Outlook. *Source: Fitch*
- In 1H21, Bahrain's government deficit reached \$1.38bn, reflecting a 35% y/y decline, while Revenues were up 23%y/y, as oil revenues jumped 33% due to a rise in oil prices. *Source: Reuters*

Sukuk – Narrowing financing needs reflected in Sukuk market

Sovereign 5-year CDS spread movement

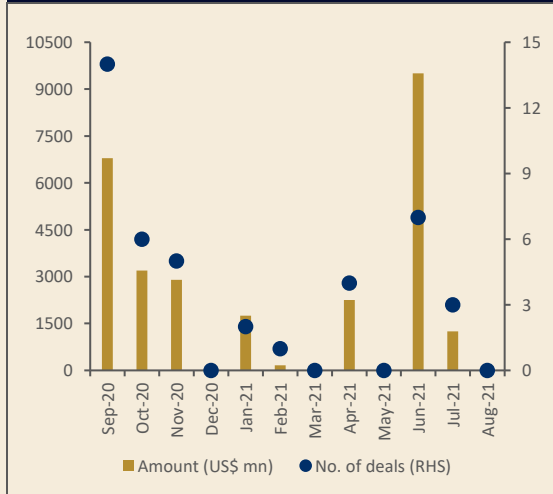


Sukuk index total return*



*Rebased to 100 on 1 September 2020

Monthly Sukuk new issuance volume



Development in regional CDS market

CDS spreads of GCC economies on an MTD basis showed a mixed trend in August 2021 driven by the global economic recovery, the revival of global oil demand, and international oil prices. CDS spreads of Oman, Saudi Arabia and Abu Dhabi tightened by 5.5bps, 5.4bps and 1.7bps, respectively. On the other hand, CDS spread of Bahrain widened by most by 0.09bps followed by Kuwait (0.02bps) as the sovereigns are expected to remain in fiscal deficit through 2023. Turkish CDS spreads tightened by 17.4bps MTD after president Erdogan cited the possible growth of 7% in Turkey's economy and inflation easing. In an effort to maintain a strong disinflationary effect, Turkey's central bank held its benchmark interest rate at 19%, defying Erdogan's calls for the rate cut.

Dampened month for Sukuk issuance

In August 2021, both S&P Sukuk Mena and Dow Jones Sukuk indices witnessed a marginal rise on an MTD basis. Senaat 25s' and Mumtalakat Bahrain 21s' were the best performers, with the yield to worst (YTW) tightening by 203bps and 141bps, respectively. On the contrary, Oman Government 24s' and DUGB 29s' were the worst performers, with YTW widening 248bps and 160bps, respectively. Among utilities, Saudi Electric 44s' continued to underperform as yield expanded by 157bps. The primary Sukuk market further moderated from the July levels, and no material Sukuk issuances were consummated in August, thereby reflecting the decreased need for financing.

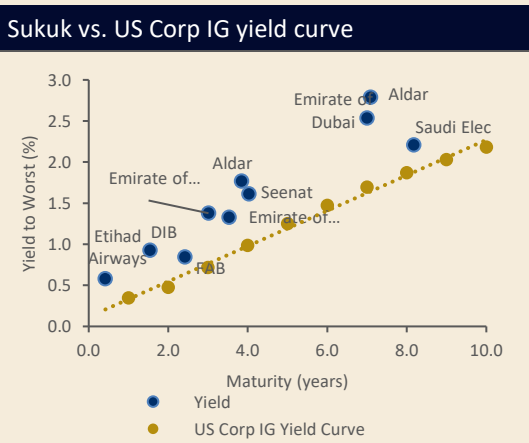
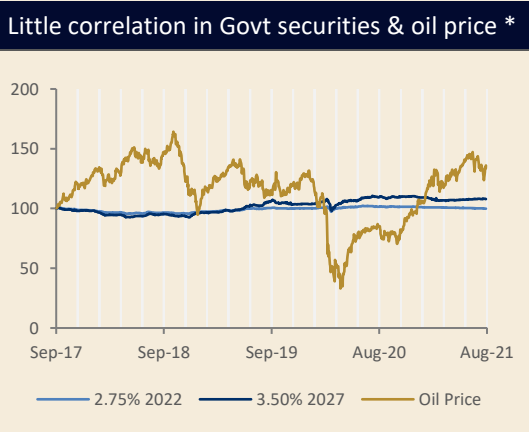
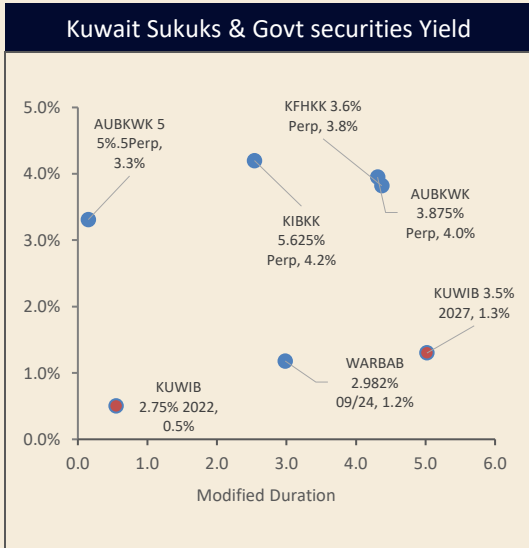
Key developments

- **Saudi Arabia closed the August Sukuk program at SR11.4bn (\$3bn).** The August 2021 issuance under the SAR-denominated Sukuk program was separated into 3 tranches – an SR2.5 bn tranche maturing 2029, an SR4.5bn tranche maturing 2033, and SR4.4bn tranche maturing 2036.
- **Saudi Aramco is in advanced talks to buy a stake in India's Reliance Industries Ltd.'s oil refining and chemicals business** for an all-stock deal to acquire a nearly 20% stake in the Reliance unit for about \$20bn to \$25bn in Aramco's shares.
- **Dubai Islamic Bank (DIB)** has increased its foreign ownership limit (FOL) to 40% percent, from its previous 25%, driven primarily by strong investor demand from large foreign institutional investors.
- **Emaar malls 1H21 revenues increased 23% y/y**, reflecting a steady recovery from the Covid-19 impact on the retail market, with both tenants and dining outlets experiencing a significant pick-up in sales.
- **Emirates REIT's total property income increased by 8.1% y/y** to \$36.8mn (AED 135.2mn). **EBITDA improved drastically** by 93.2% y/y at \$29.7mn (AED 109.1mn). LTV stands at 57.5% as at 30 June 2021, down from 61.7% as of 31 December 2020. Portfolio's occupancy remained stable at 70%, the average passing rate increased by 5%.

Kuwait – Dire necessity of framework for government funding

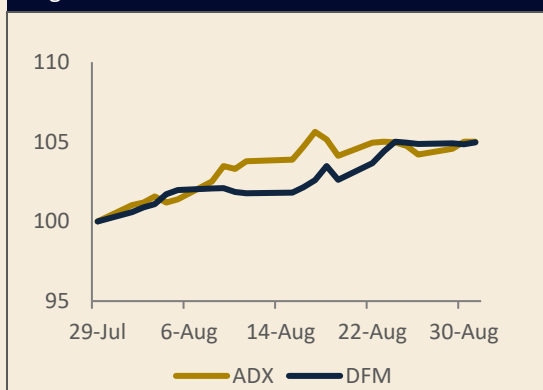
Kuwait

- In July 2021, S&P downgraded Kuwait's ratings to 'A+' from 'AA-', citing sluggish structural reforms, absence of comprehensive strategy of government funding despite considerable government deficits. The negative outlook primarily resonates with the government's inability in implementation of a financing strategy for future deficits. The government's General Reserve Fund (GRF), which is the pivotal source of financing the deficit, has been depleting over the years. Ever since the expiry of the Kuwait's financing law in 2017, the government hasn't been able to secure financing and the GRF remains only option for financing.
- While Kuwait is expected to witness a central government deficit of 33% of GDP in 2021, stellar recovery of the oil prices provides a much-needed respite as the economy is largely dependent on Oil (90% of government revenue). Moreover, Kuwait's oil exports are poised to increase as discontinuation of OPEC+ production cuts are in the offing. That said, government deficits are expected to average 17% of GDP over 2021-24.
- Sukuk has been emerging as an alternative and important instrument but Kuwait's fixed income capital market remains dominated by conventional financing instruments. The central bank of Kuwait has been the major issuer of the conventional fixed income securities. The number of Sukuk issues remains small due to lack of clear law and regulation, shortage of expertise in structuring Sukuk, and absence of government issued Sukuk. The central bank's role remains the key to the prospect of flourishing Islamic financial instruments such as Sukuk. That said, legal framework of Kuwait's doesn't allow to issue Sovereign Sukuk despite its need to finance the budget deficit due to the standoff between governments and parliaments over a law that would enable Sukuk financing
- Kuwaiti entities have raised a total of \$3.4bn worth fixed income securities and Sukuk in 1H21 (4% of total GCC issuances), thereby reflecting the momentum for such financing. The most recent and notable issuances was done by Kuwait Finance House which sold \$750mn in Additional Tier 1 Sukuk at 3.6%, tightened from initial guidance of 4%, due to more than \$1.9bn in orders. While the total national financing of Kuwait was 11.5% of GDP in 2020, it is expected to rise to 13.7% in 2021.
- The corporates Sukuks, which are mainly issued by banks and financial institutions provide more attractive returns underpinned by Kuwait's strong ability to provide support to domestic banks in case of distress, irrespective of the bank's size. The government's issuances are lagging in the comparison mainly due to the reason that their performance remains directly related to the government policies and considering the current deficits, the revival seems slightly difficult. Though Kuwait's economy remains largely dependent on the Oil, the government fixed income securities don't seem to reflect the oil price movement to the extent expected. Hence further recovery in oil prices will not boost the prices of these securities, as expected.



Equities: In positive territory despite resurgence of virus

Regional index movement*



*Rebased to 100 on July 29

DFM top five gainers and losers

Gainers	MTD	Losers	MTD
AMCREIT	162.2%	ALFIRDOU	-46.4%
AGLTY	39.5%	ALSALAMK	-10.6%
UPP	23.7%	ALRAMZ	-10.0%
IFA	14.6%	NIND	-9.8%
ARMX	13.0%	UFC	-9.8%

ADX top five gainers and losers

Gainers	MTD	Losers	MTD
ZS	212.7%	GCEM	-13.1%
ESG	117.2%	ADSB	-10.4%
EASYLEAS	115.9%	GMPC	-10.2%
ADAVIATI	16.7%	ORDS	-10.0%
PALMS	60.1%	CBI	-10.0%

Abu Dhabi: Best performing market YTD

Global markets gained MTD (Jul 25 to Aug 25) as broader positive outlook on economy growth and corporate earnings recovery outpaced the worries related to likely gradual withdrawal of monetary policy support and rising COVID cases. Locally, both ADX and DFM gained strongly, led by key sectors such as banks (ADX: +4.3%, DFM: +5.0%) and real estate (ADX: +8.3%, DFM: +4.8%) amid recovery in corporate earnings and improving domestic real estate market fundamentals. In addition, continued record rally in the index heavyweight International Holdings (IHC) further helped ADX to maintain its outperformance among most global markets. In terms of value, foreign investors bought stocks worth of AED616mn on ADX and AED240mn worth of stocks on DFM, on a net basis. The average daily volume increased by 25% MoM and 34% MoM on ADX and DFM, respectively.

On YTD basis, ADX (+52%) remains the best performing equity market globally on the back of i) continued strong uptrend in index heavyweights IHC (+248%) and FAB (+32%), ii) relatively reasonable valuations, iii) oil prices recovery, and iv) also supported by optimistic outlook on economy growth post COVID-era. However, DFM (+16%) is still lagging behind its key regional peers, despite attractive valuations, given the scepticism over recovery in the domestic real estate sector.

The DFM index is trading above all major simple moving averages and has created an ascending triangle pattern. However, the index is consolidated in the last few trading sessions. The index has also managed to bounce off its major support line and may breach its near term resistance level of 2,904. For the ADX index, 50-SMA has crossed the 100-SMA from above, suggesting selling pressure. The index may take support 200-SMA. Support levels are – 7,323, 7,061 & 6,545.

Most read regional company headlines

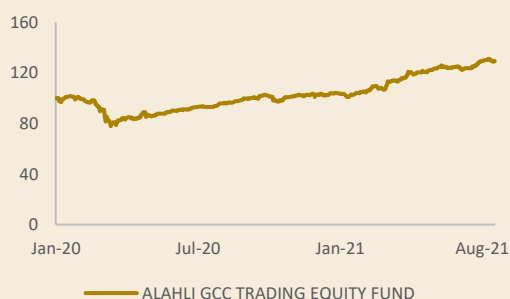
QISI	QISI's net profit declines 1.3% YoY and 27.2% QoQ in 2Q2021
DOHI	DOHI's net profit declines 3.8% YoY and 30.5% QoQ in 2Q2021
AKHI	AKHI posts net profit of QR11.2mn in 2Q2021
MARK	MARK announces the purchase of additional 5% stake in Al Rayan (UK) Ltd from Qatar Holding LLC

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	7,684.62	5.0	52.3	369.0	233.1	450.0	23.5	2.2	3.0
Dubai	2,902.97	5.0	16.5	84.9	201.7	60.5	21.5	1.0	2.7
Saudi Arabia	11,319.24	2.8	30.3	2,619.1	196.3	2,220.0	27.5	2.4	2.3
Kuwait (All shares)	6,786.81	3.1	22.4	129.0	344.6	297.9	32.2	1.7	1.8
Oman	3,966.75	-1.6	8.4	12.6	14.0	5.9	12.7	0.8	3.9
Bahrain	1,645.41	3.0	10.4	26.4	3.5	3.0	11.7	0.8	3.3
Qatar	11,092.90	3.2	6.3	152.3	129.2	145.5	16.9	1.6	2.6

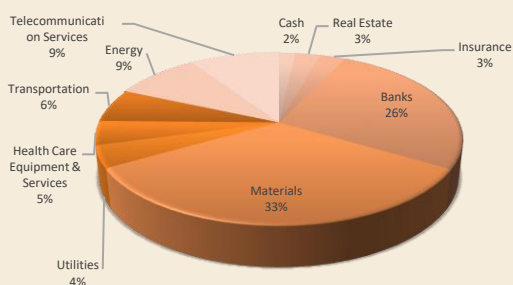
Mutual funds – Modest growth leads to revival despite risks

ALAHLI GCC TRADING EQUITY FUND*



**Rebased to 100 on Jan 01, 2020

ALAHLI GCC TRADING EQUITY FUND*



Equity funds outperformed finance funds

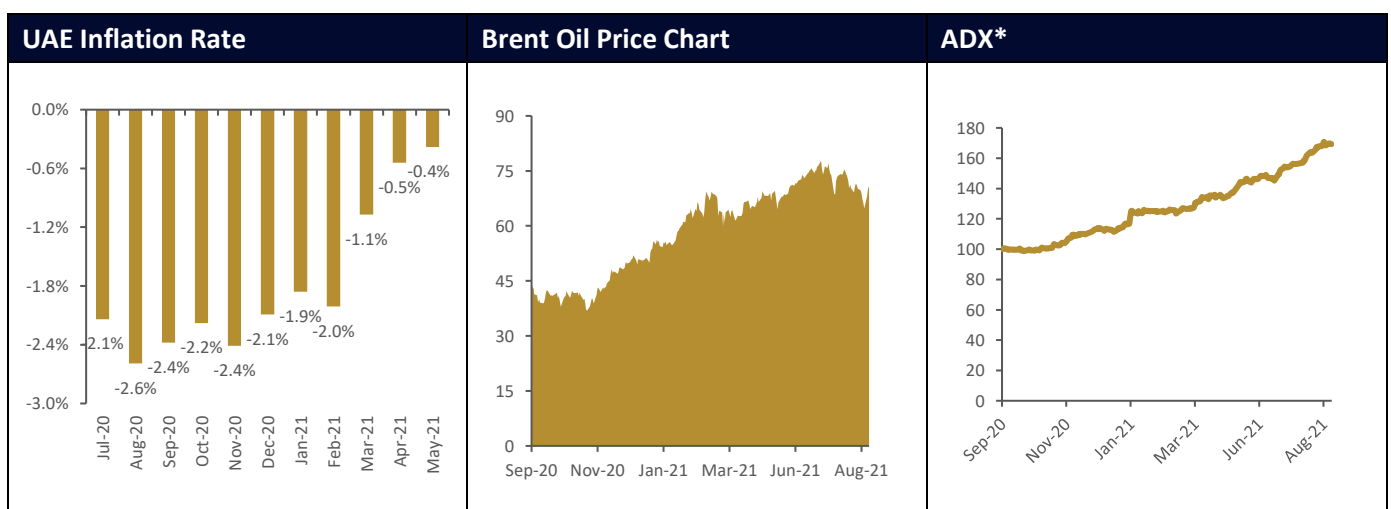
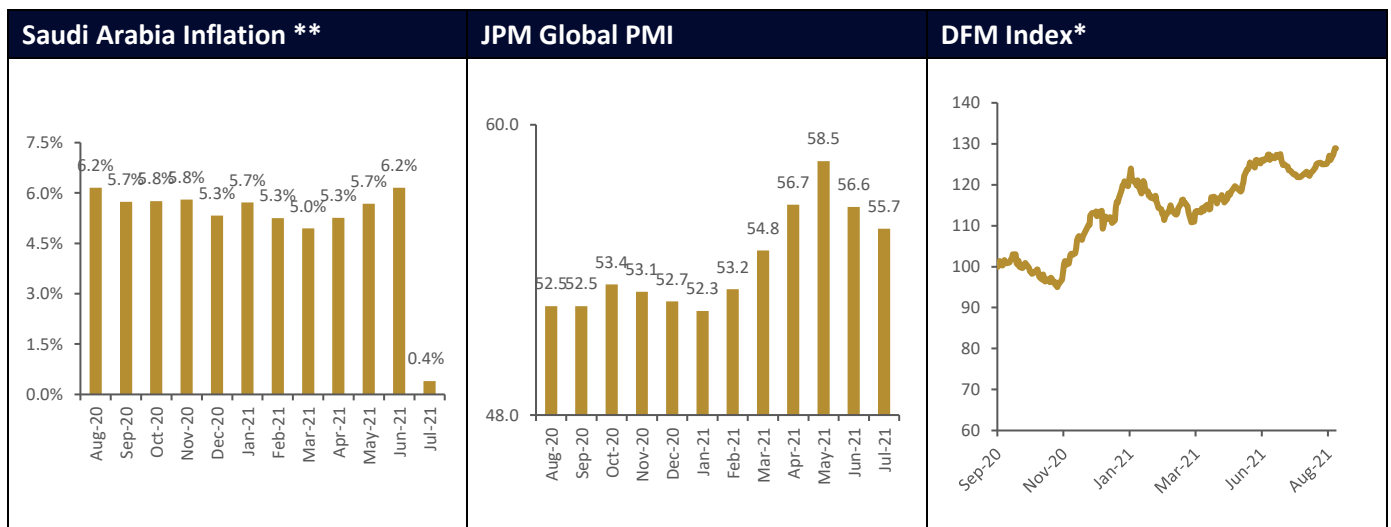
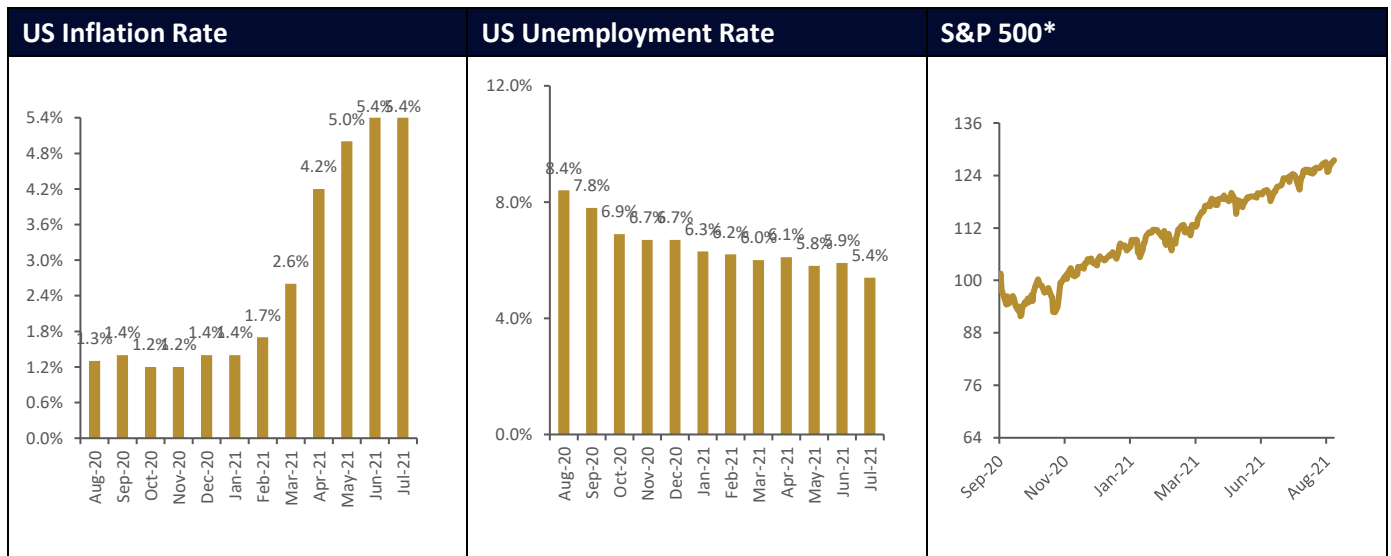
- From our coverage of 31 funds, 22 funds closed in the green on MTD basis (Jul 25 to Aug 25), led majorly by equity funds, assisted by government spending, monetary stimulus, increased industrial output, measures to control the inflation rates, curb spread of the virus and rollout of vaccines. The decline in spending, high inflation rate and increasing number of patients due to the Delta variant of the virus continues to remain the key risks affecting the global economic growth.
- Emirates India Equity Fund (+3.7% MTD) was the highest gainer among 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 witnessed accelerated growth and contributed to the returns.
- Franklin Global Sukuk Fund declined marginally (-0.2% MTD). The underperformance can be attributed to the high exposure of Sukuk in UAE and Saudi Arabia, which lagged the equity funds during the period.

ALAHLI GCC TRADING EQUITY FUND

- AlAhli GCC Trading Equity Fund is an open-ended Shariah-compliant equity that invests in the companies listed in the GCC markets to generate long-term capital growth (5-years return of 52.5% as on June 2021). Geographically, the fund has major of its investments in Saudi Arabia based companies (89%) followed by UAE (7%) and Kuwait (3%). The asset allocation comprises of ~98% Equity and ~2% Cash with the major investment allocation in the Materials (32%) and Banks (26%) sectors as on April 2021. As of August 25th 2021, the fund has been performing exceptionally well (~26% YTD and 3% MTD), on the back of the ongoing momentum witnessed in the capital market due to the economic recovery of GCC countries post COVID-19 related lockdowns and also supported by higher oil prices.

List of mutual funds

Fund names	ISIN	NAV	Currency	MTD	YTD
Emirates India Equity Fund	LU1654400644	14.13	USD	6.08%	22.55%
Emirates India Equity Fund	LU1484867434	18.55	USD	6.06%	25.31%
Comgest Growth Europe S	IE00B4ZJ4634	36.55	EUR	3.60%	25.30%
AlAhli GCC Trading Equity Fund	AFB007482106	1.37	SAR	3.40%	26.73%
AlAhli North America Index Fund	AFB007013901	7.98	USD	3.16%	20.35%
Comgest Growth Europe S	IE00B3ZL9H82	32.32	USD	3.09%	20.82%
AlAhli Saudi Trading Equity Fund	AFB007482007	14.19	SAR	2.15%	30.34%
Emirates World Opportunities Fund	LU1060357412	14.15	USD	2.05%	21.13%
Emirates World Opportunities Fund	LU1654397329	11.51	USD	2.04%	17.21%
Old Mutual Global Islamic Equity	IE00BYMM2054	16.93	USD	1.44%	21.71%



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

*Rebased to 100 on 1 September 2020

**Previous periods impacted by VAT introduction since July 2020

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