



**mashreq**  
**Asset Management**  
Investing Professionally in the Middle East

## PORTFOLIO MANAGER'S OUTLOOK

August, 2014

## What to Look for in The Month Ahead – August 2014

### Equity

- The Capital Markets Regulator (CMA) of Saudi announced they will open the stock market to foreign investors in 2H15. We believe the positive beneficiaries will be mainly large-cap names including petrochemicals, banks but not excluding cement and consumer names.
- We continue to monitor the situation in Egypt following the removal of fuel and electricity subsidies.
- Political turmoil continues regionally and globally between Russia and Ukraine yet MENA markets continue to ignore developments for the most part.

Sector	PER	PBVR	Dividend yield	1 year Earnings growth
Banks	16.8	2.07	3.0%	8.0%
Real Estate	19.3	1.39	1.5%	10.6%
Materials	18.1	2.54	4.0%	25.0%
Telecommunication	11.2	2.36	4.6%	10.8%
Consumer staples	25.7	3.83	1.9%	15.0%
Retail	21.8	3.53	2.5%	17.0%
Utilities	21.4	5.24	2.8%	3.0%
Industrials	16.1	1.57	4.6%	22.3%

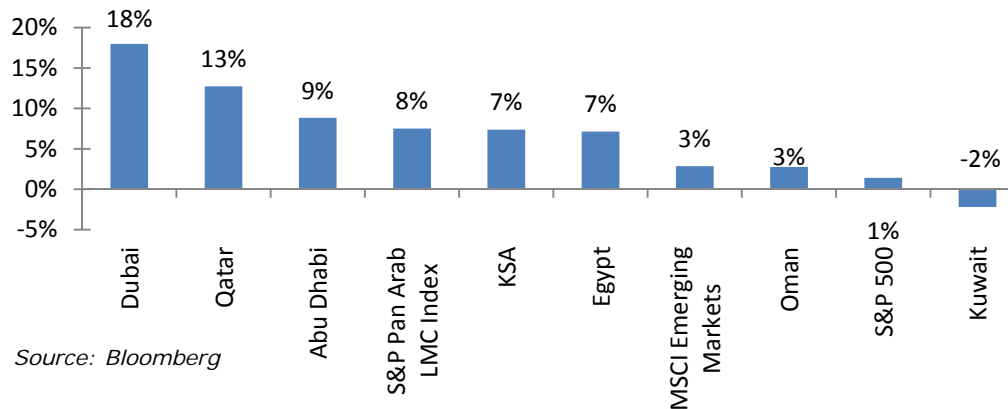
## Top/Bottom Performers and How We Fared – July 2014

### Equity

Top 3 Performers Across Funds		Bottom 3 Performers Across Funds	
Savola	19.3%	Al Arafa Investments & Consulting	-4.2%
Barwa Real Estate Company	13.9%	Oriental Weavers	-3.2%
Emaar Properties	13.2%	Renaissance Services	-2.6%

- Despite Ramadan being in the full month of July, it was nevertheless busy in first half of the month for MENA markets specifically following the UAE and Qatar market crash witnessed in June. Having said that, July proved to be a very good month for the latter markets as they were top performers rising as much as 18%.
- Despite the Government of Egypt instituting a widely anticipated hike in fuel and electricity costs, the market took it positively as uncertainty was lifted from the market and investors plowed into names that will be immune to such a hike. Additionally, pundits view this fiscal consolidation move as positive for the medium to long-term.
- Saudi kept us busy in the second half of July not only because of earnings season but also because the CMA announced they will be opening up their stock market to foreign investors. Following the news, there was much appeal for large-cap names.

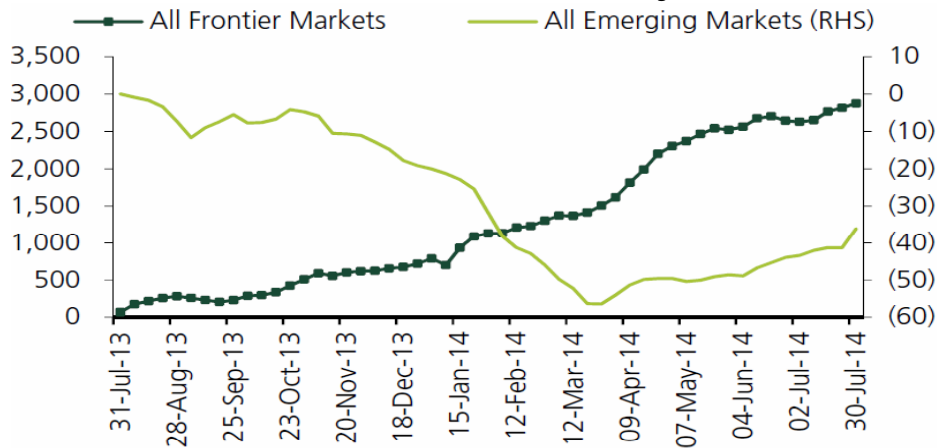
## Monthly Equity Market update – July 2014



Source: Bloomberg

The snapback in markets in July was very apparent from UAE and Qatari markets. Saudi performed well in the second half of the month as they announced to open up their equity market to foreigners.

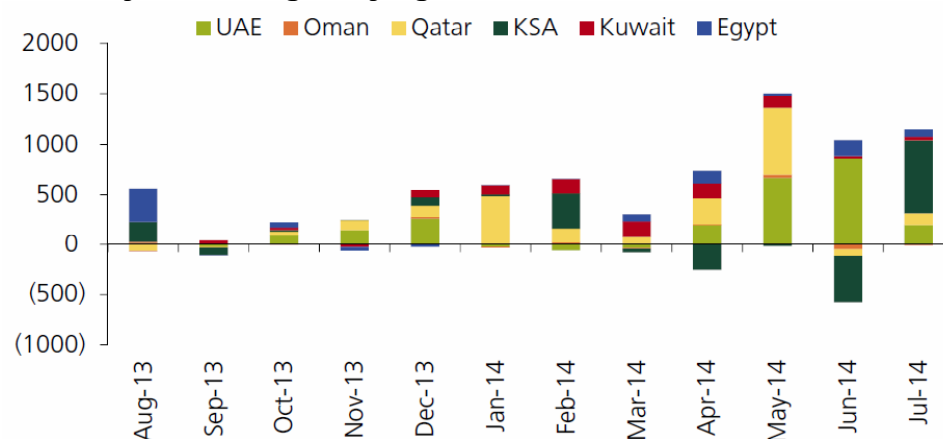
## Frontier Markets vs. EMs: Cumulative Weekly Fund Flows (USD mn)



Source: EFG

Fund flows are returning to Emerging Markets as momentum picks up – the latter is positive for MENA markets as valuations will be further justified.

## Monthly Net Foreign Buying in USD million



Source: EFG, Stock Exchanges

Foreigners plowed into Saudi as SWAP investor's purchases reached a record high of SAR3.5bn in July.

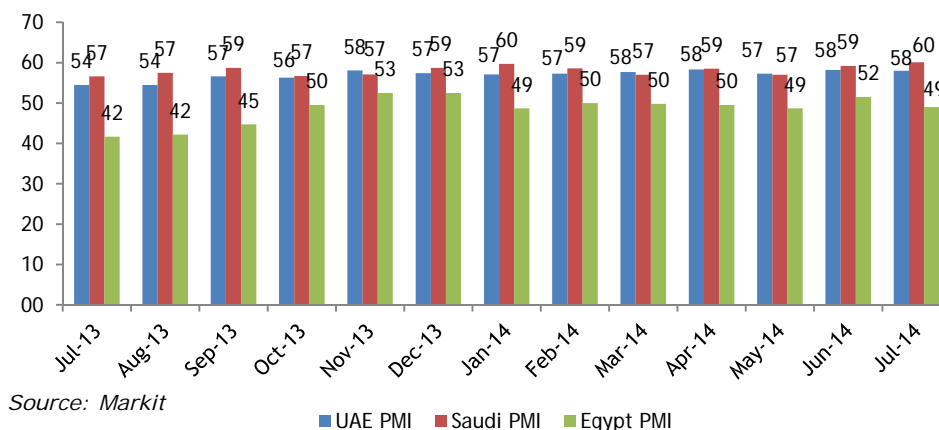
**Equity Market Outlook – August 2014**

Stock Exchange	Year to date(%)	TTM P/E	Estimated 2014 P/E	Dividend Yield (%)
Saudi Stock Exchange	19.7%	19.6	16.2	2.7
Dubai Financial Market	38.0%	19.1	16.8	2.2
Abu Dhabi Exchange	15.4%	14.1	13.5	3.4
Kuwait Stock Exchange	-5.5%	16.9	-	3.9
Doha Stock Market	24.8%	16.2	14.6	3.9
Cairo Stock Exchange	23.2%	18.3	12.3	2.9
Muscat Stock Market	5.4%	11.0	11.8	3.9
S&P Pan Arab LargeMid Cap Index	16.0%	17.8	14.9	3.1
MSCI Emerging Markets	7.8%	13.6	12.0	2.7
S&P 500	7.6%	18.0	16.6	1.9

Source: Bloomberg

We believe consolidation will continue for DFM until 3Q comes to an end while Egypt and Saudi will benefit from their own tailwinds.

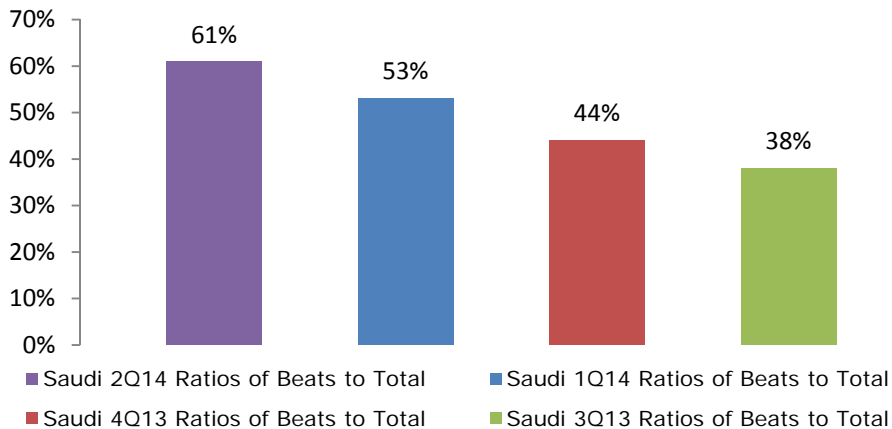
**Select Purchasing Manager Indices**



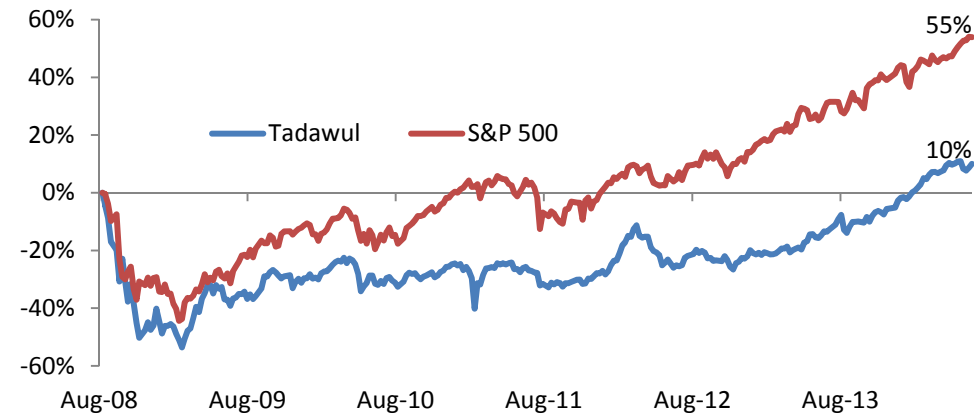
PMIs continue to be resilient YTD. We note that Egypt had a minor setback seeing a month on month drop due to the removal subsidies.

**Looking forward – Solid 2Q14 Earnings from Saudi and market opening up to Foreigners – here’s what to expect going forward:**

**Saudi: Ratio of Earnings Beats to Total Companies that have reported companies continues to increase QoQ**



**Performance of Tadawul and S&P 500 from August 2008 to mid-July 2014 – we believe this gap will close with the opening of the Saudi stock market**



## Monthly Fixed Income Market update – August 2014

### The month ahead

The month witnessed a multitude of global unrelated negative events: Russia-Ukraine tensions, Iraq turmoil, Israel-Gaza conflict, West sanctions towards Russia and vice versa, Argentinean default, Airlines crashing and US air-strike. All these coupled with summer low liquidity, fear of rate hikes and end of the Fed's bond buying program underpinned investors view and led them to stand on the side-line sending the markets wider.

In the region, geopolitical tensions are still mounting, but they seem discounted at this point. Overall sovereigns and GRE levels were maintained; a slight weakness appeared in some HY names and long duration bonds despite a drop in UST yields, due to the looming sentiment.

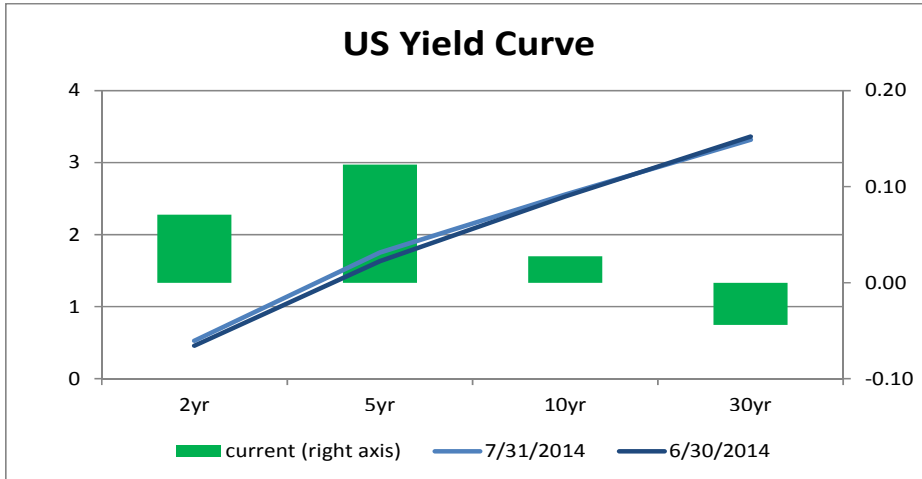
The US economy seems to be on the right track although Q2 GDP figures could be just rebounding from the very bad Q1. Nonetheless, a pickup in corporate spending and/or some government spending need to be seen in order to sustain this recovery. We remain positive however we acknowledge that there will be a lag in the economic data and more needs to be seen. Note that the flattening of the yield curve recently points to a lack of conviction about the economic growth prospects.

Weakness was also apparent in Asia and Europe in sympathy with the general sentiment and lack of liquidity. European corps and financials widened across the board, higher weakness was seen in the more subordinated bonds. Asia saw couple of new issues that maintained well. This market "lullness" should reverse by September as it is not caused by fundamental factors.

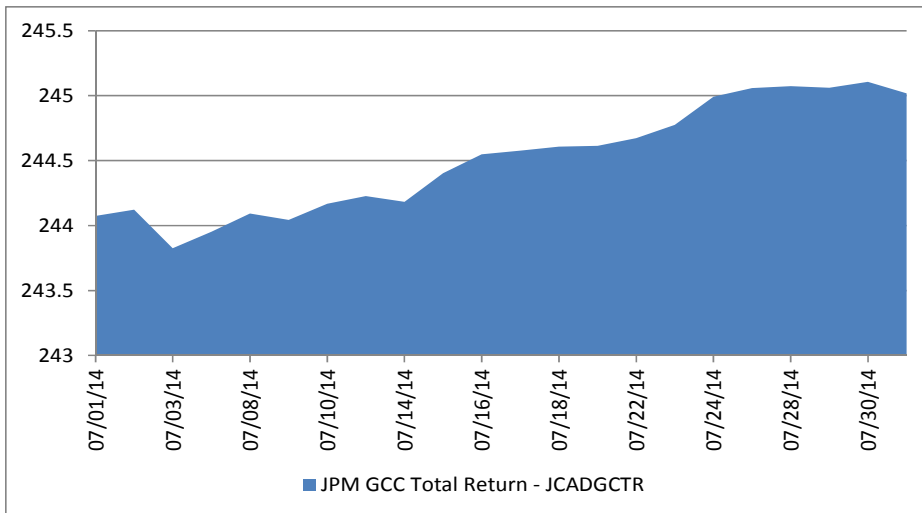
Market themes to look out for are:

- US economic recovery with a focus on the interest rate path and the impact of exiting the bond buying program.
- Inflation targets in the US with forward guidance being the new tool to guide it.
- China policies for economic growth
- Geopolitical conflicts

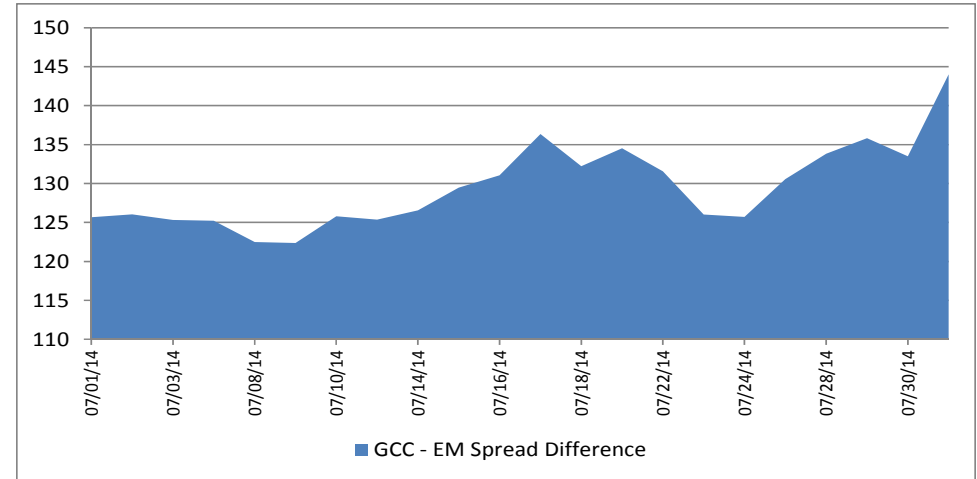
Monthly Fixed Income Market update – August 2014



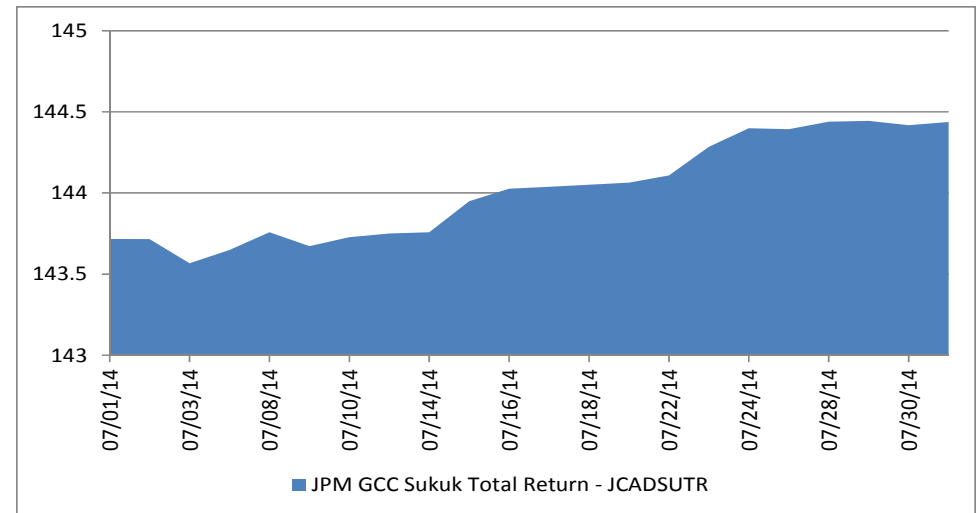
On a month-on-month basis the yield curve flattened, which is represented by the notable positive change in the 5years maturity and the drop in yield for the 30 years.



On a total return basis the market was slightly higher month on month..



The above chart displays the spread at which the Emerging Markets are trading wider than the GCC market. The spread widening was due to two factors, the EM widening by 9bps along the GCC tightening 9bps.



The Sukuk sub-section's performance mimics the broader GCC markets performance.

# FUNDS AT A GLANCE



**Peer Comparison – MAKASEB & MASHREQ AL ISLAMI ARAB TIGERS FUND**

<b>Fund Name</b>	<b>NAV Date</b>	<b>YTD</b>	<b>1Y</b>	<b>3Y</b>	<b>5Y *</b>	<b>S.I.</b>
Makaseb Arab Tigers MATF	11-Aug-14	28.58	38.876	103.398	133.277	60.969
Amundi Fds Equity MENA - A2U (C)	12-Aug-14	23.402	31.103	75.398	90.334	-4.605
Arab Gateway	05-Aug-14	14.205	26.662	64.036	88.557	265.8
Mashreq Al Islami Arab Tigers Fund	11-Aug-14	22.57	27.09%	74.26%	86.104	93.80
Emirates MENA Top Companies - USD A	11-Aug-14	21.423	31.661	67.99	81.463	19.014
Franklin MENA A (acc) USD	12-Aug-14	24.053	38.674	66.962	71.136	-24.7
Al Dana MENA Equity Manager Selection	31-Jul-14	16.91	22.99	63.855	65.483	18.914
EFG-Hermes Middle East & Developing Africa (MEDA)	11-Aug-14	29.6	36.481	63.841	55.398	148.438
Al Mal MENA Equity	06-Aug-14	15.807	22.674	54.015	65.881	5.5
TNI MENA UCITS	11-Aug-14	18.572	28.331	53.155	-	53.043
Markaz Arabian	17-Jul-14	15.198	22.863	51.54	60.077	34.553
Emirates MENA High Income USD A Acc	11-Aug-14	14.691	21.542	47.541	67.459	103.68
Meridio Funds - Meridio Arab World P	12-Aug-14	20.573	30.029	37.142	32.023	-6.99
Beltone Gems Equity Fund	11-Aug-14	17.92	24.636	36.251	48.675	-2.172
Al Masah Capital Fund- MENA Dividend Fund C	12-Aug-14	9.891	19.345	-	-	21.696
NBAD MENA Dividend Leader (USD)-Acc	11-Aug-14	17.412	30.066	-	-	47.268
Baring MENA A USD Acc	12-Aug-14	20.476	27.266	70.336	-	67.1

SI – Since Inception,  
Source: Zawya & Bloomberg

**Peer Comparison – MAKASEB INCOME FUND**

Fund Name	NAV Date	YTD	1Y	3Y	5Y*	S.I.
Makaseb Income (MIF)	11-Aug-14	4.253	8.146	25.52	61.139	32.461
Al Mal MENA Income	06-Aug-14	5.502	8.455	21.047	27.533	34.42
Emirates MENA Fixed Income USD A Inc	11-Aug-14	6.28	8.633	25.135	-	69.795
NBAD Cautious Income Fund	07-Aug-14	0.048	0.302	-	-	12.982
NBAD MENA Bond (USD)-D	11-Aug-14	3.971	5.069	-	-	4.909
Sico Fixed Income A	24-Jul-14	6.753	7.719	-	-	5.92

SI – Since Inception  
Source: Zawya

## Peer Comparison – MASHREQ AL ISLAMI INCOME FUND

Fund Name	NAV Date	YTD	1Y	3Y	5Y*	S.I.
Mashreq Al-Islami Income Fund (B)	11-Aug-14	4.827	7.542	21.255	52.411	50.088
Jadwa Global Sukuk	03-Aug-14	3.425	4.912	11.445	28.335	23.326
Emirates MENA Fixed Income A USD Acc	11-Aug-14	6.281	8.633	25.299	-	40.587
BLME Sharia'a USD Global Sukuk Income A	13-Aug-14	4.522	6.165	18.708	-	20.325
Emirates Global Sukuk A USD Acc	11-Aug-14	4.6	6.048	15.839	-	26.647
Emirates Global Sukuk USD A Inc	11-Aug-14	4.599	6.048	15.782	-	27.55
HSBC Sukuk Fund	05-Aug-14	1.033	0.733	-	-	2.243
Mashreq Al-Islami Income Fund (D)-Acc	11-Aug-14	4.221	6.472	-	-	5.916
Mashreq Al-Islami Income Fund (D)-Income	11-Aug-14	2.737	4.957	-	-	4.561
NBAD Sukuk Income Fund	07-Aug-14	0.545	-1.485	-	-	2.263

SI – Since Inception  
Source: Zawya

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