

mashreq

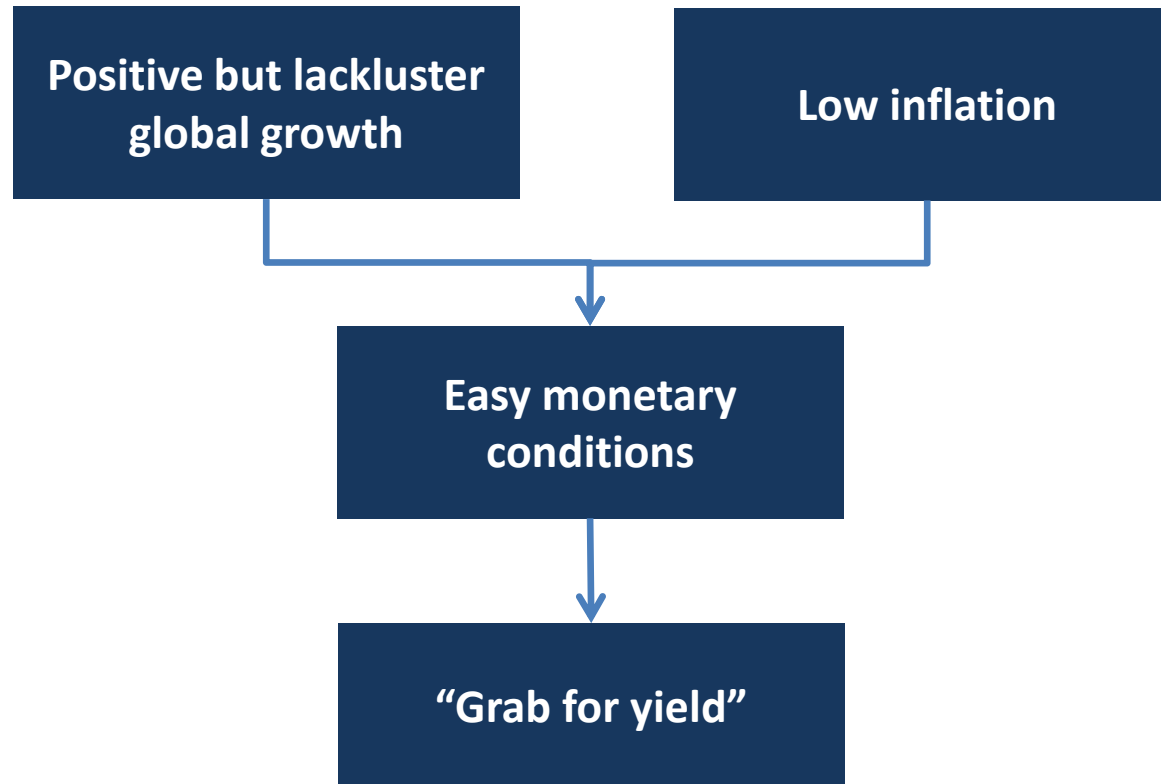
Asset Management

Investing Professionally in the Middle East



Investment Themes

Our fundamental research highlights the following investment themes on a 3 months horizon:



Investment Themes - Details

Positive but lackluster global growth without inflationary pressures:

- Global trade growth subdued with ongoing overcapacity in certain sectors.
- Range-bound oil price: shale-gas caps the upside at around US\$50-55 and demand growth supports prices at around US\$35-40.

Major central banks will only tighten very cautiously (USA) or not at all :

- Episodes of financial volatility likely to be short-lived. Investors are pushed towards riskier assets.

GCC: economies adjusting to the lower oil prices:













- Tighter fiscal policy with capital spending slashed, subsidy cuts and introduction of new taxes.
- Demand growth under pressure, especially discretionary items.
- Budget deficits to be financed partially by debt issuance. This will offer opportunities to capture new issue premia.




Asset Allocation Views:

- Environment beneficial for fixed income in general while sector selection is key for equities.
- Assets which still offer some yield in a low -return environment will benefit. EM, GCC fixed income and dividend return strategies will probably do well.
- We seek to extend duration in UAE and Qatar and, opportunistically, in Kuwait and Saudi Arabia.
- In equities, subdued consumer demand in GCC countries drives us to underweight this sector.
- We are underweight growth stocks and overweight high-dividend stocks.

Strategic Biases – Major Asset Classes



















Our strategic top-down views on a 3 months horizon:




Region / Country	Credit Spreads	Equities	Currency
GCC	 New issuance a buying opportunity, RV in global context	 SA to outperform rest of GCC	
North Africa	 Benefit from high yield in EM context	 Egypt to outperform after FX devaluation	 EGP devaluation expected
Turkey	 Challenging political situation will cap potential for spread tightening	 Sensitive to US hikes & political risks	
India & SE Asia			

 positive  neutral  negative

Strategic Biases – MENA Equities

Our strategic top-down views on a 3 months horizon:

Sector	GCC	North Africa	Turkey
Banks			
Consumer Goods			
Real Estate			
Telecommunications			
Materials			
Utilities			

 positive  neutral  negative

Fixed Income - Monthly Comment

Where we stand

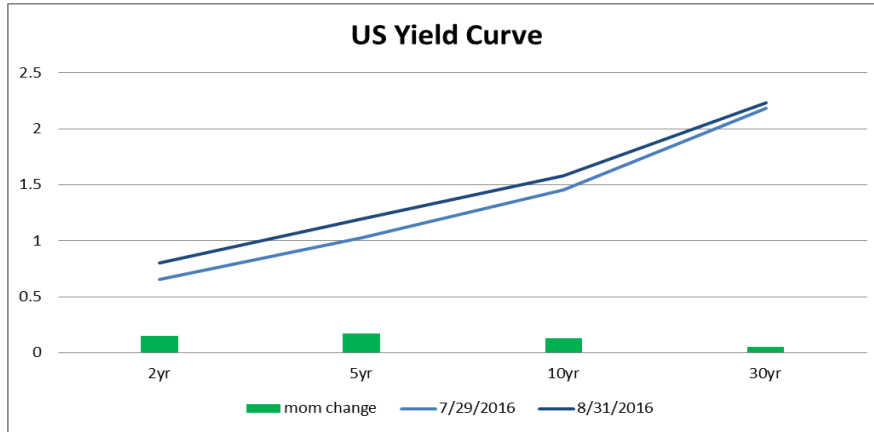
Market conditions are generally very good with no indications for any immediate concerns and volatility remains low. We have had a very strong month of August as **oil prices** moved back to the upper trading range of around US\$50, while interest rates remained stable. **Fed officials** mentioned the possibility of a September interest rate hike. The latest NFP numbers and other recent releases slightly disappointed, however, which means that a hike is not a done deal.

Outlook

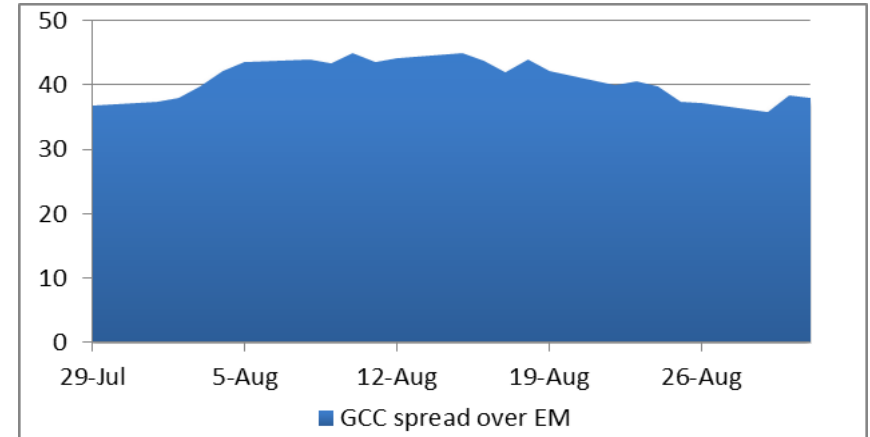
We expect a continued positive investment environment for fixed income but are looking towards a huge pipeline of issuance in the months ahead. These will likely provide good opportunities to invest cash balances. Our base case is that the Fed will keep interest rates on hold on **September 21st**. Even if the Fed hikes, we don't expect that it will have much impact on markets once the initial reaction is over. However this will very much depend on the communication that they provide along with it.

Our view is that central banks lean on the side of growth and financial stability at the moment. While there is still headroom for actual inflation to pick up, the lower growth scenario post Brexit will keep inflation expectations moderate. We keep monitoring inflation closely as a potential medium-term threat to our long duration strategy.

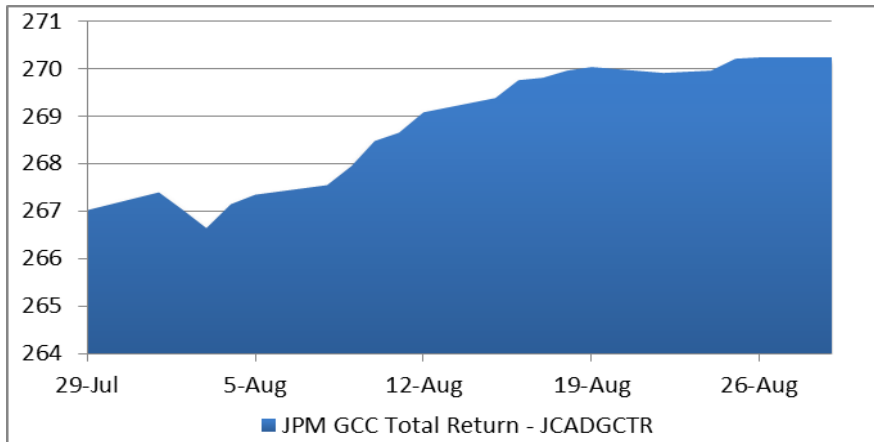
Fixed Income - Charts



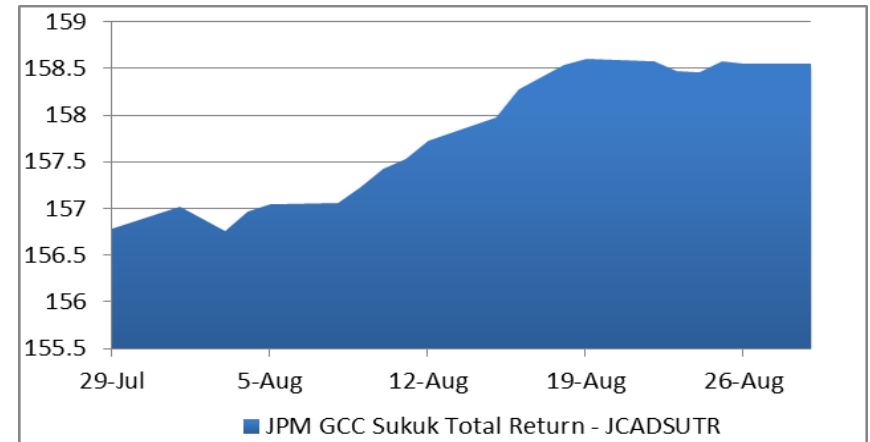
The US treasury market ended the month with a flattening yield curve that had shifted up slightly.



GCC spread over EM was largely unchanged MoM as both markets benefitted equally from spread tightening.



GCC credits performed well with spreads tightening partly due to higher prices and partly due to lower US treasuries.



The Sukuk sub-section moved in tandem with the broader market.

Equities - Monthly Comment

Where we stand

The **oil price** rose more than 10% in August, helped by a weakening dollar and US inventory draws. Unlike last month, the rise resulted in solid equity market performance, with the exception of Saudi Arabia. In that country, the monthly government bond program, a slower economy, and higher needs for working capital have resulted in a weakening liquidity situation. It seems that there is liquidity pressure in the sectors which are highly correlated to government spending, like construction and healthcare. Despite the recovery in oil prices, private sector consumption remains subdued.

Over in the UAE, the market continued to see an uptick as EM flows were positive. Qatari equities continue to benefit from the upcoming FTSE EM inclusion as well as from MSCI-related flows. In Egypt, the market has been supported by an IMF staff-level agreement to disburse USD 12bn over three years.

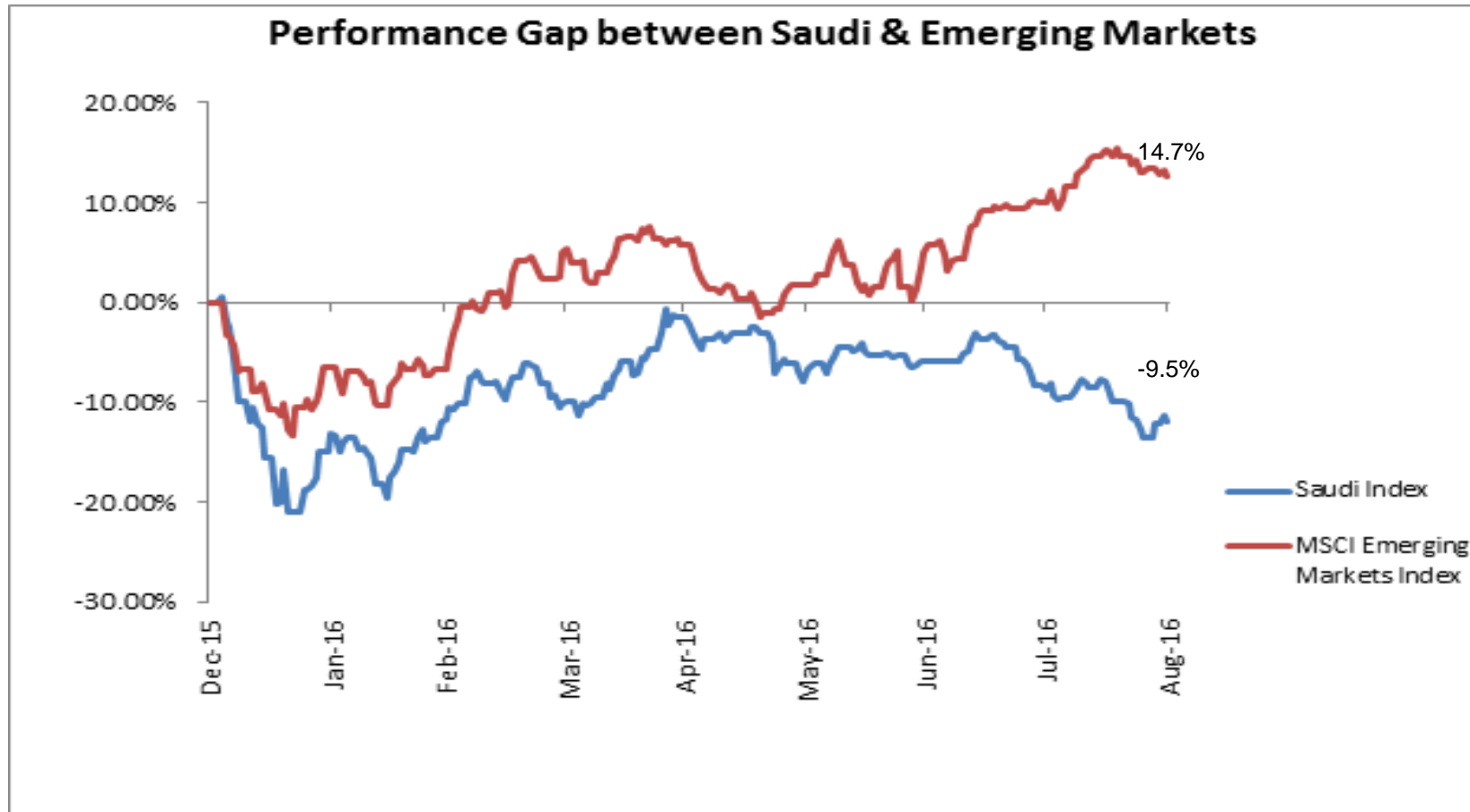
Outlook

In Saudi Arabia the market has shifted its focus from the domestic demand story to the external demand story. The economies of DM and other EM countries are doing better than the domestic economy. We do not think that this trend will change in the short term. We are expecting the government to move quickly to address the liquidity shortage in the economy, however. Debt issuance is likely in September, which should enable the government to pay off some of the arrears accumulated. That will probably give some relief to the market in the next quarter. The main positive factor for consumer stocks in Saudi Arabia is valuation. Firms are trading at an average of 30% discount to their EM peers. We think the market has already priced in most of the negative economic scenario.

We think Qatar will continue to benefit from the FTSE upgrade to for the next month as well. We are concerned about the oversupply in real estate in Dubai and will stay selective in this sector. We continue to prefer high-yield and large cap stocks over growth and medium and small caps stocks.

Equities - Monthly Chart

Saudi Arabia has underperformed EM by 24% year-to-date



Source: Bloomberg, September 2016

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