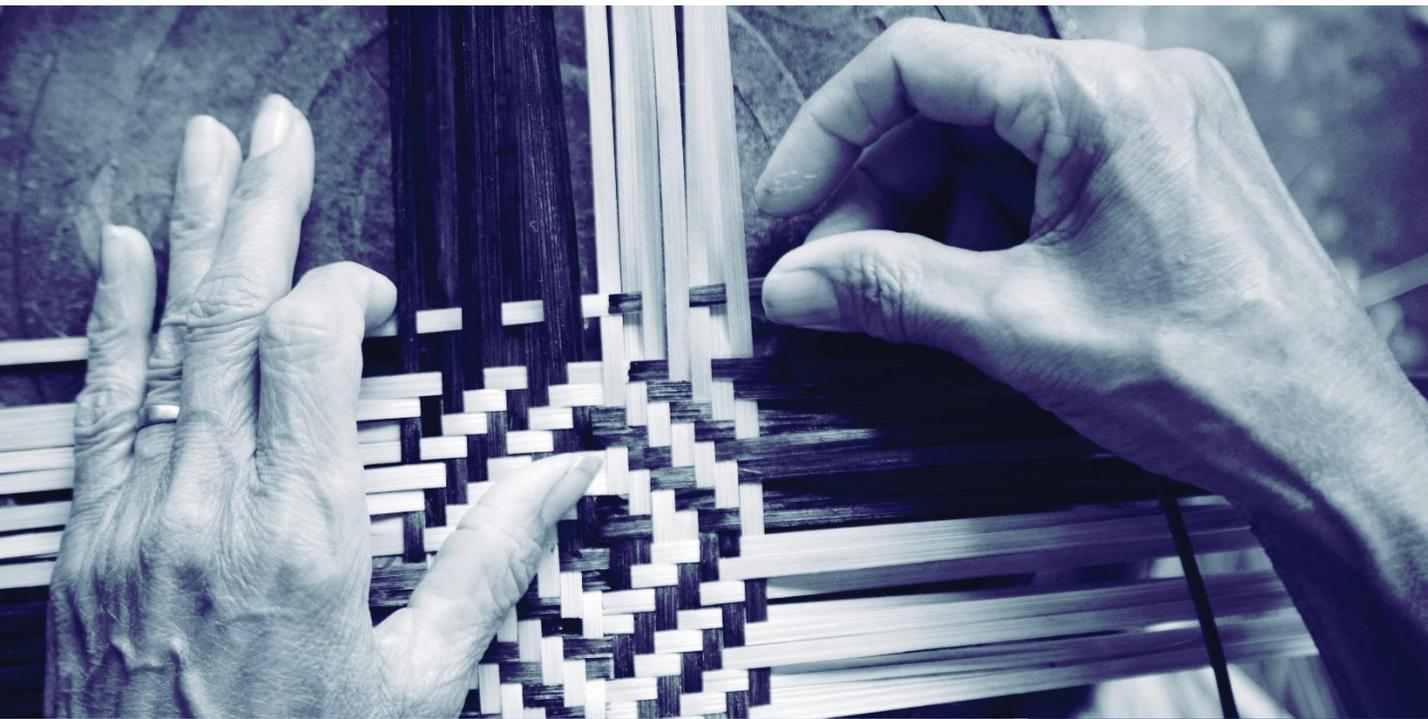




ضمان للإستثمار
DAMAN INVESTMENTS

MENA Monthly Review



Highlights of the month

August 2019

- August was a roller coaster month for the global equity markets
- Volatility spiked on trade war rhetoric and yield curve inversion
- S&P 500 Index declined 1.8% and MSCI EM Index dropped 5.1%
- MENA markets also saw a strong bout of volatility with S&P Pan Arab Composite Index down 5.4%
- Egypt outperformed with EGX30 Index rallying 10.8% on rate cut expectations
- Saudi and Dubai underperformed with Tadawul Index and DFMGI Index plummeting 8.2% and 5.5%

Global and MENA Equities

August was a roller coaster month for the global equity markets with asset managers running for cover driven by unfolding of key events. The S&P 500 Index witnessed 11 trading sessions with moves of more than 1% and witnessed its worst day of the year where it lost 3%. The CBOE Volatility Index (VIX), the stock market fear gauge, spiked to 25 levels from a YTD average of 16. The wild swings in the market were mainly driven by escalation in trade tensions between US and China and inversion in a key measure of US Treasury yield curve (negative spreads between 10-year and 2-Year Treasury Bonds), which is considered as a key leading indicator in predicting recession, stoking recession worries. Since 1950, all nine major US recession have been preceded by an inversion of a key segment of the yield curve. On Aug. 2, US President Donald Trump announced 10% tariffs on \$300bn of Chinese imports starting Sep. 1, blaming China on failing to follow through on promises of buying more US farm products. On Aug. 5, Trump accused China of currency manipulation after it allowed Yuan to fall to a 11-year low against dollar. China also halted purchases of US agricultural products. On Aug. 13, Trump decided to delay tariffs on \$190bn on mainly consumer electronic imports from China until December 15 and through his tweets continued to put pressure on

fed to cut rates aggressively to backstop any potential weakness in economy due to trade war. Market tried to stabilize, but upward momentum did not last long as 2-10 yield curve inverted and on Aug. 23, China retaliated by unveiling new tariffs on \$75bn of US imports. Fed Chairman Jerome Powell during Jackson Hole speech appeared dovish highlighting that US economy despite being a favorable place faces significant trade war related risks. Powell promised to act as appropriate to sustain economic expansion. Trump struck back by bolstering tariffs on \$250bn of Chinese goods to 30% from 25% on Oct. 1 and ordering US companies to leave China. However, equities rebounded during the last week of the month with Chinese deciding not to respond and both countries struck conciliatory tone with hopes to resume talks soon. S&P 500 closed the month down 1.8%. Europe Stoxx 600 Index declined 1.6%. Emerging markets were worst performers with MSCI EM Index plummeting 5.1% driven by weak performance of India, Brazil and China. Although we continue to monitor the yield curve inversion closely, we currently are not highly concerned as we continue to see US economy as strong despite pockets of weakness in the manufacturing sector, which is mainly driven by lower investment in capex and inventory due to trade war concerns. We

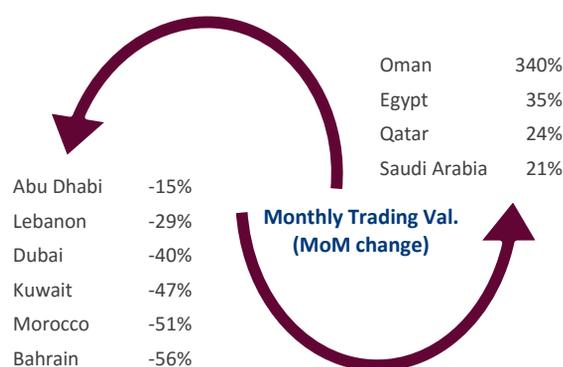
Major Indices Performance

	Value	MTD Return	YTD Return	PE (x) 1Yr Fwd	PB (x) 1Yr Fwd	Div. Yield TTM
Saudi Arabia - Tadawul	8,020	-8.2%	2.5%	15.5	1.75	3.8%
Dubai - DFMGI	2,759	-5.5%	9.0%	7.4	1.01	4.5%
Abu Dhabi - ADMSI	5,166	-2.9%	5.1%	13.3	1.63	4.8%
Qatar - DSM	10,233	-2.6%	-0.6%	13.8	0.98	4.3%
Kuwait - All Share	5,941	-2.9%	17.0%	14.7	0.78	3.5%
Oman - MSM30	4,005	6.5%	-7.4%	6.9	0.79	6.8%
Bahrain* - BHSEASI	1,533	-0.9%	14.6%	11.5	0.97	5.1%
Egypt - EGX30	14,835	10.8%	13.8%	9.9	1.82	2.6%
Morocco - MOSEMDX	9,542	0.8%	3.3%	18.3	2.55	3.8%
Lebanon* - BLOM	797	-3.8%	-18.4%	4.2	0.48	11.4%
S&P Pan Arab Composite	132	-5.4%	4.6%	13.0	1.39	4.1%
S&P 500	2,926	-1.8%	16.7%	17.7	3.18	1.9%
MSCI EM	984	-5.1%	1.9%	12.8	1.48	2.9%
MSCI All Country World	511	-2.6%	12.1%	15.8	2.13	2.6%

Traded Values

	M Cap (USD bn)	Avg. daily traded value 6M (USD mn)	M cap/Avg. daily traded value (days)
Saudi	505	1,024	494
UAE	232	114	2,040
Qatar	138	66	2,104
Kuwait	111	114	973
Oman	13	8	1,692
Bahrain	24	3	7,445
Egypt	34	34	1,013
Morocco	62	13	4,750

Source: Bloomberg, Daman Investments Asset Management
Note: Bahrain's and Lebanon's PE and PB ratios are trailing

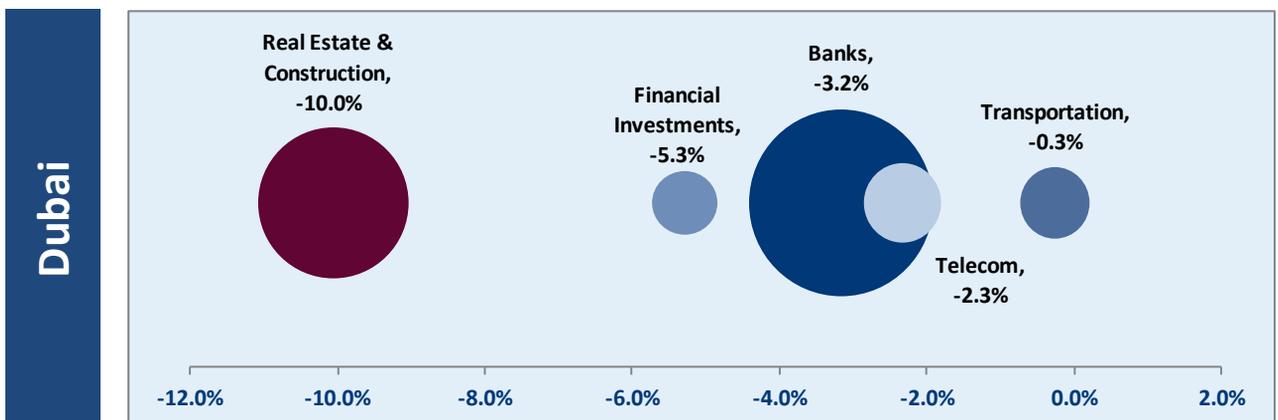


Source: Bloomberg, Daman Investments Asset Management

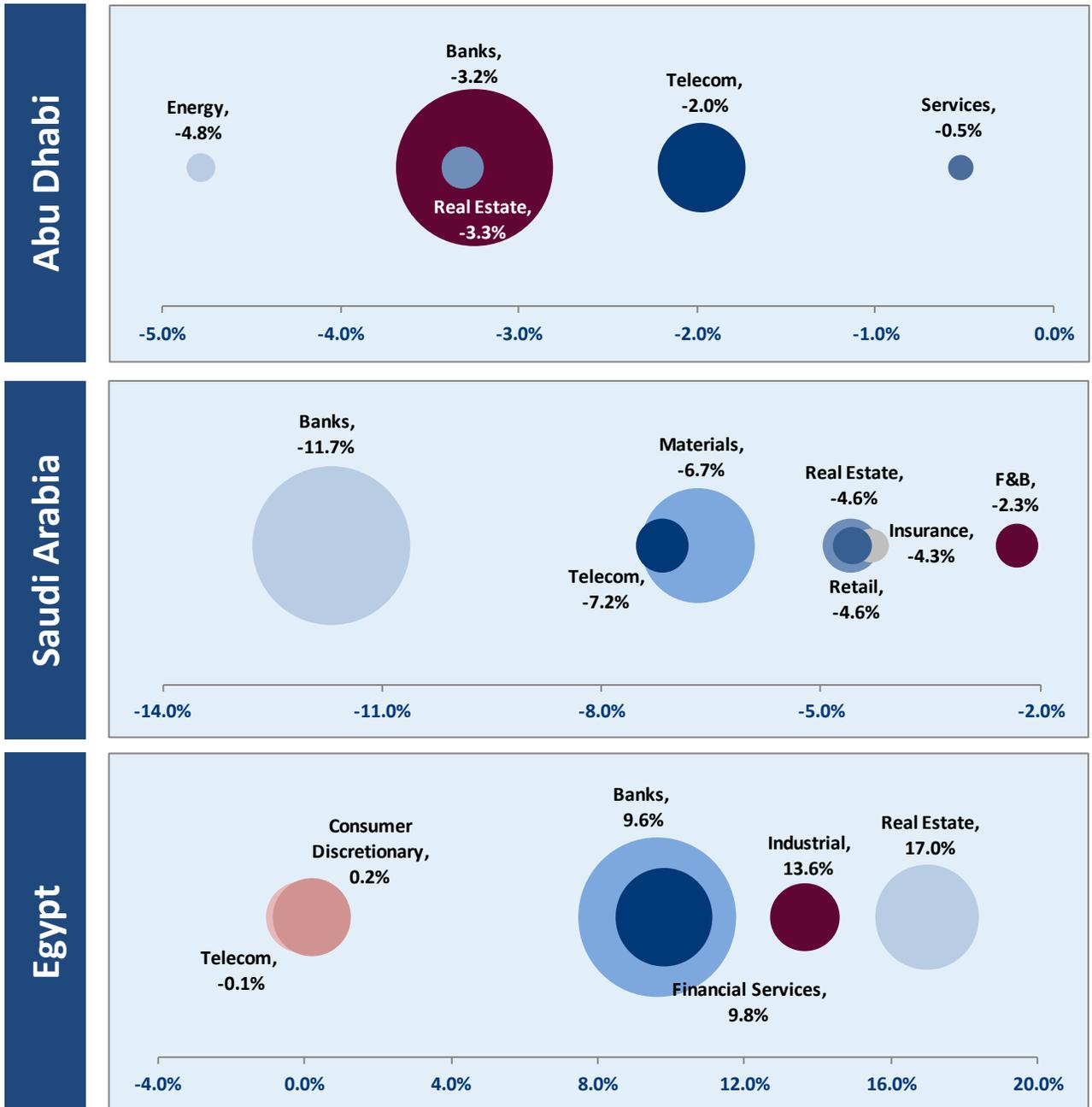
attribute yield curve inversion to three specific reasons – hunt for yield due to \$17tn of global bonds providing negative yields, fed staying behind the curve and investor seeking safe-haven in long-term treasuries due to trade war escalation. A de-escalation in trade war and fed delivering a couple rate cuts over the next few months should steepen the yield curve again. It takes on average about 20 months for the recession to hit after yield curve inverts and equities generally rally during this phase. Given the uncertainty, we have been cautious and have defensive elements in our portfolio in the form of bonds, utility stocks and gold call options. We expect gold to outperform in an environment of high uncertainty, negative real yields and investor rushing for safe haven. Gold rallied 7.5% in August and has outperformed all other asset classes YTD. MENA markets also exhibited volatility with S&P Pan Arab Composite LargeMidCap Index closing the month down 5.4% driven by steep declines in Saudi and UAE markets. Brent crude oil dropped 7.3% owing to demand concerns from trade war escalation thereby offsetting any supply concerns linked to Iran being out of the market and OPEC+ agreeing on maintaining production cuts of 1.8mn barrels till end of March 2020. Dropping US crude oil inventory (at 428mn barrels down 12% from the recent peak in June 2019) and a continued decline in rig count (at 742 down 16% from the recent peak in November 2018) is providing support to oil price to hover around \$60/barrel levels. However, rising US crude oil production is capping any rallies. Crude oil production hit an all-time high of 12.5mn barrels per day, up 7% YTD. Saudi market underperformed plummeting 8.2% on lower oil prices, global market volatility, and investors unwinding positions before the second tranche implementation of Saudi in MSCI EM Index on Aug. 27. We still see market as expensive and continue to avoid the broader market while focusing on catalyst driven or recovery driven bottom up mid-cap names. We have recently initiated position in Saudi Ceramics. We expect the company’s tile segment pricing to improve over the coming few quarters driven by - ongoing GCC-wide anti-dumping investigation, which is expected to conclude by end of 2019 and disruption at India’s tile production due to the ban of coal gasifiers. Media reports suggest that

Aramco is considering a plan to split its IPO into two stages, with the first stage consisting of a listing that could raise as much as \$50bn on the Saudi stock exchange later this year and following it up with an international offering in 2020/2021. This could lead Saudi weight to increase by 1% to 3.8% in FTSE and MSCI EM Indices with potential inflows of \$6.2bn. After a strong rally in July, UAE markets came under a strong selling pressure with Dubai’s DFM Index and Abu Dhabi’s ADSMI Index dropping falling 5.5% and 2.9%, respectively. Market still awaits any further news on foreign ownership limit (FOL) increase. We continue to see UAE valuations as undemanding and see near-term value unlocking catalysts such as FOL increase, opening to foreigners, government spending, consolidation in banks, lower interest rates, potential de-escalation in the geopolitical issues and active money moving out of Saudi into the UAE. We have recently initiated a position in NMC, the stock became quite undervalued after almost a 50% decline from the peak level witnessed in mid-2018 on concerns linked to free cash flow generation and integration of assets acquired over the last 4 years. We found comfort in management’s recently communicated strategy of focusing on properly integrating the acquired entities and enhancing free cash flow generation. NMC’s 1H 2019 results were also better-than-expectations. Kuwait and Qatar declined 2.9% and 2.6%, respectively. Egypt outperformed with EGX 30 Index rallying 10.8% on rate cut expectations after July inflation of 7.8% came in the Central Bank’s (CBE) target range and reaching predevaluation levels. CBE positively surprised the market by cutting interest rates by 1.5% versus market expectation of 1%. We still see current level as an attractive entry point and expect rate cut cycle to continue and GDP growth to improve further with budget deficit on a declining path. We like names in the Non-Banking Finance space which will see a strong loan growth generation and better asset quality tied to lower interest rates. We subscribed to the IPO of Fawry, an Egypt based electronic payment firm. The stock closed 31% higher on listing day. Oman gained 6.5% as the country posted much lower than expected budget deficit. We like Bank Muscat as it is quite undervalued versus MENA banks given its stable earnings, high dividend yield and stable deposits.

Sectors Performance of Key MENA Indices (MoM Change)

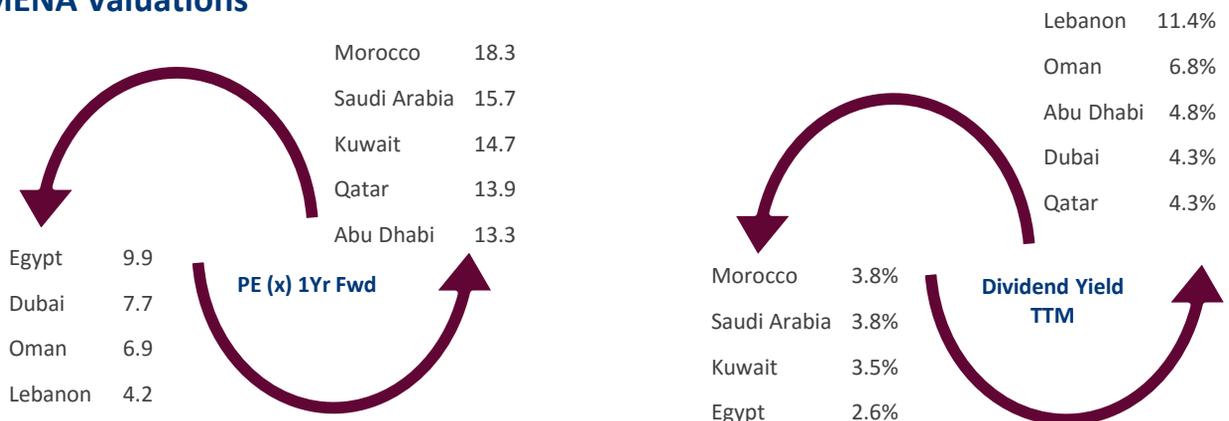


Sectors Performance of Key MENA Indices (MoM Change)



Source: Bloomberg, Daman Investments Asset Management Note: Size of the bubbles represent weight of the sectors in the respective index

MENA Valuations



Note: Oman and Lebanon's PE ratio is trailing

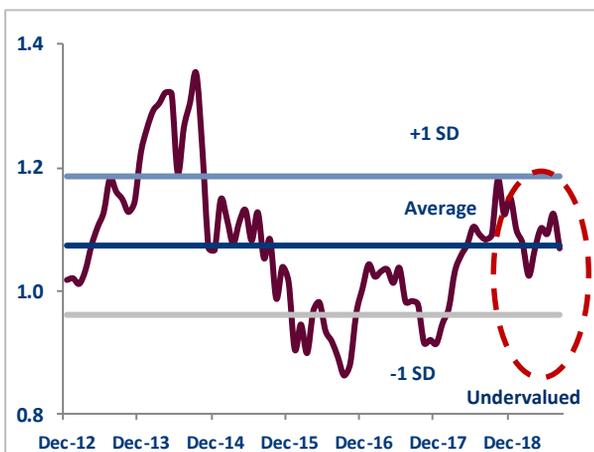
Source: Bloomberg, Daman Investments Asset Management

MENA Relative Valuations Versus Emerging Markets

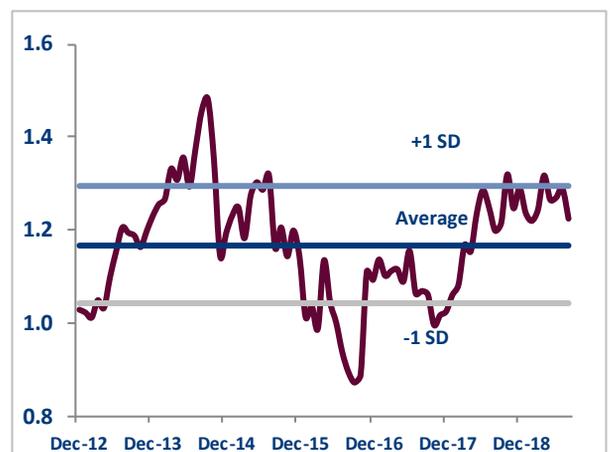
Based on our relative PE analysis of MENA markets versus Emerging Markets, we believe that MENA markets offer selective value as they currently trade close to 1 standard deviation below the historical average relative PE of 1.07 vs MSCI EM despite having stronger fundamentals. MENA also offers higher dividend yield of 4.1% vs EM at 2.9%.

UAE is trading close to 1 standard deviation below the 5 year historical average relative PE of 0.96 vs MSCI EM. UAE's dividend yield is also quite attractive at 4.5%. Relative PE is calculated by dividing the PE of MENA markets by Emerging Markets. Standard Deviation measures the variation in the relative PE from its average over the last 5 years.

Relative PE (1 yr Fwd.): MENA vs MSCI EM



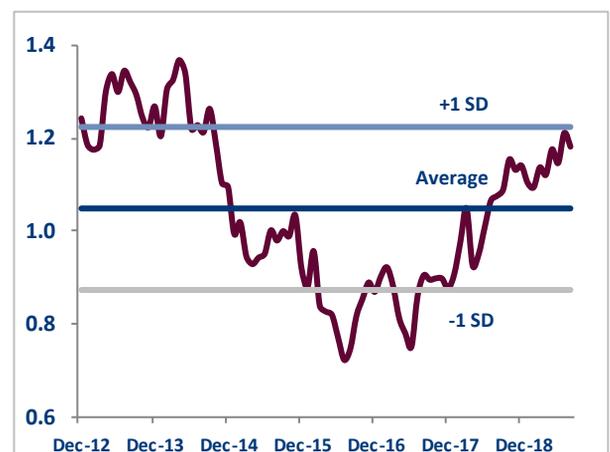
Relative PE (1 yr Fwd.): Saudi vs MSCI EM



Relative PE (1 yr Fwd.): UAE vs MSCI EM



Relative PE (1 yr Fwd.): Kuwait vs MSCI EM



Source: Bloomberg, Daman Investments Asset Management

MENA Fixed Income

Global bond markets continued to rally as asset managers increased allocation to bonds given increasing macro-economic uncertainty linked to trade war escalation. This combined with \$17tn worth of global bonds carrying negative yield, ageing demographics and growing savings has accentuated the flows into bonds. About \$487bn flowed into fixed income funds this year, up from \$148bn in the first half of 2018. It is the highest level of first-half net inflows into bond mutual funds for at least a decade. Equity funds have suffered outflows of \$26.5bn. Barclays Global Aggregate Index and Barclays US Treasury Index rose 2% and 3.4%, respectively. The iShares 20+ Year Treasury Bond ETF (TLT) rose 10.8%. 10-year US Treasury yield declined 52bps to close the month at 1.50%. The 30-year Treasury bond yield fell to an all-time low of 1.96%. The British pound came under pressure against the U.S. dollar after Prime Minister Boris Johnson suspended Parliament from mid-September until October 14 to push through Brexit. Germany's economy contracted by 0.1% QoQ in Q2 2019. The decline was attributed mainly to a fall in exports, lower investment and weak consumption. The drop-in business confidence to 94.3 indicates a further fall in GDP in Q3 and the economy heading into a recession. Industrial output fell MoM by 1.5% in July. US

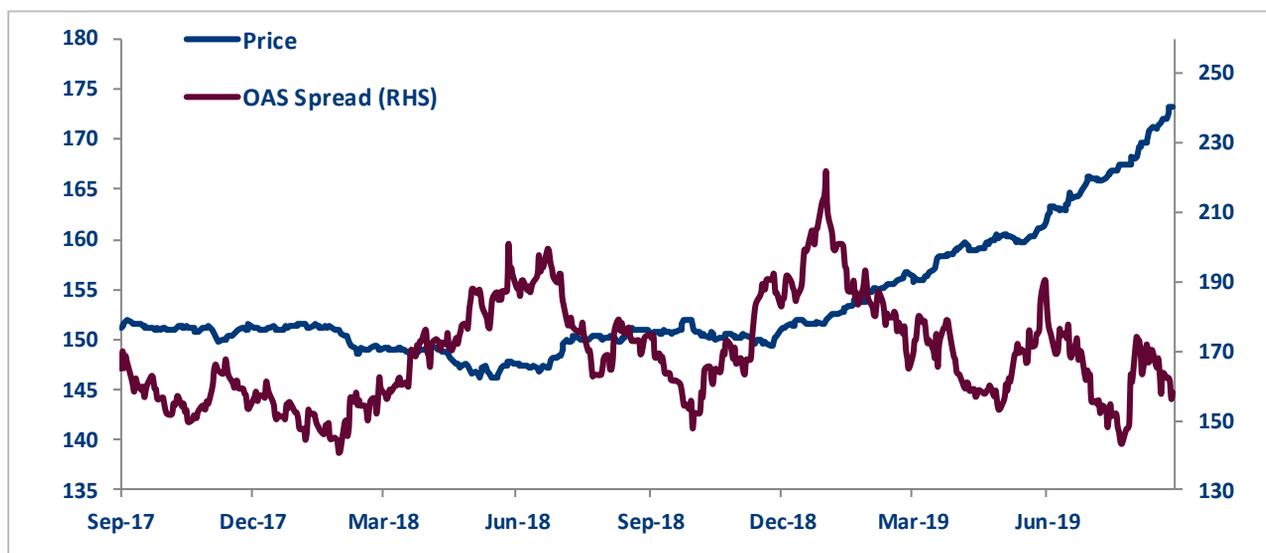
manufacturing PMI dipped below 50 to 49.9. China's industrial production rose 4.8% YoY coming below market expectations and representing a 17-year low. Investors are now pricing in a 25bps cut at the next Fed meeting on September 17/18. Given the uncertain global economic environment, we expect the 10-year yield to hover around the current levels with bias to downside. Barclays GCC Credit +HY Index and Citi MENA Broad Bond Index rallied 3.5% and 2.6%, respectively. YTD regional bond markets have outperformed the regional equity markets with Citi MENA Broad Bond Index up 13.5% versus S&P Pan Arab Composite LargeMidCap Total Return Index rising 8.5%. Regional USD sovereign bonds witnessed a strong performance with Abu Dhabi 9-year, Kuwait 8-year, Qatar 9-year and Saudi 9-year sovereign bond yields declining 60bps, 56bps, 53bps and 50bps, respectively. We continue to like an exposure to Egypt local currency treasury bill, given high yield in offering and strong foreign reserves of \$44bn. Despite 150bps rate cut, Egypt still offers one of the highest real yield amongst the EMs and potential FII inflows and FDI inflows any decline in currency would be limited.

Performance

	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	173	3.5%	14.3%
Citi MENA Broad Bond Index	162	2.6%	13.5%
Barclays Global Aggregate Index	514	2.0%	7.4%
Barclays US Treasury Index	2,409	3.4%	8.6%
Barclays US Corporate Index	3,223	3.1%	13.9%
Barclays EM Corporate Index	285	0.3%	9.9%
10-year US Treasury yield* (%)	1.50	-52	-119
10-year Germany Treasury yield* (%)	-0.70	-26	-94
9-year Saudi Arabia Govt USD Bond yield* (%)	2.50	-51	-181
9-year Abu Dhabi Govt USD Bond yield* (%)	1.99	-60	-170
8-year Kuwait Govt USD Bond yield* (%)	2.05	-56	-151
9-year Oman Govt USD Bond yield* (%)	5.83	6	-148
10-year Bahrain Govt USD Bond yield* (%)	4.95	-20	-198
9-year Qatar Govt USD Bond yield* (%)	2.28	-53	-162
10-year Egypt Govt EGP Bond yield* (%)	14.44	-128	-355
EIBOR 3M* (%)	2.44	-14	-40
SAIBOR 3M* (%)	2.42	-21	-56
QAIBOR 3M* (%)	2.75	-2	-16
Saudi Arabia 5 Year CDS* (bps)	67	-4	-39
Dubai 5 Year CDS* (bps)	67	8	-28
Qatar 5 Year CDS* (bps)	48	-2	-35

Source: Bloomberg, Daman Investments Asset Management Note: * MTD and YTD changes are in basis points (bps)

Barclays GCC Credit +HY Index



Source: Bloomberg, Daman Investments Asset Management

Major Commodities and Currencies

Performance

	Value	MTD Change	YTD Change
Brent crude oil (USD/bbl)	60.43	-7.3%	12.3%
Natural Gas (USD/mmbtu)	2.29	2.3%	-22.3%
Gold (USD/Ounce)	1,520	7.5%	18.5%
Copper (USD/MT)	5,656	-4.2%	-4.9%
Aluminium (USD/MT)	1,724	-2.7%	-7.4%
Nickel (USD/MT)	18,004	24.6%	69.8%
Urea Middle East (USD/MT)	265	-8.6%	-7.0%
Methanol China (USD/MT)	225	-3.0%	-14.4%
SE Asia Polyethylene (USD/MT)	960	-5.0%	-11.1%
Polypropylene (USD/MT)	1,060	-2.3%	-3.6%
US Trade Weighted Dollar Index	130.67	1.8%	2.1%
EGP/USD	16.56	0.1%	-7.6%
USD/EUR	1.10	-0.8%	-4.2%
USD/GBP	1.22	0.0%	-4.7%
JPY/USD	106.28	-2.3%	-3.1%

Source: Bloomberg, Daman Investments Asset Management



About Daman Investments

Daman Asset Management is a dedicated MENA specialist offering mutual funds strategies and bespoke investment products, which have been built on our independent research insights and backed with a proven track record of delivering superior risk-adjusted returns which have substantially outperformed peers and regional benchmarks. Our experienced team manages investments on behalf of local and regional institutions, family offices and high net worth individuals.

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To receive a list of Daman Investment's composite descriptions and any other information, please contact the Marketing & Communications Department.

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