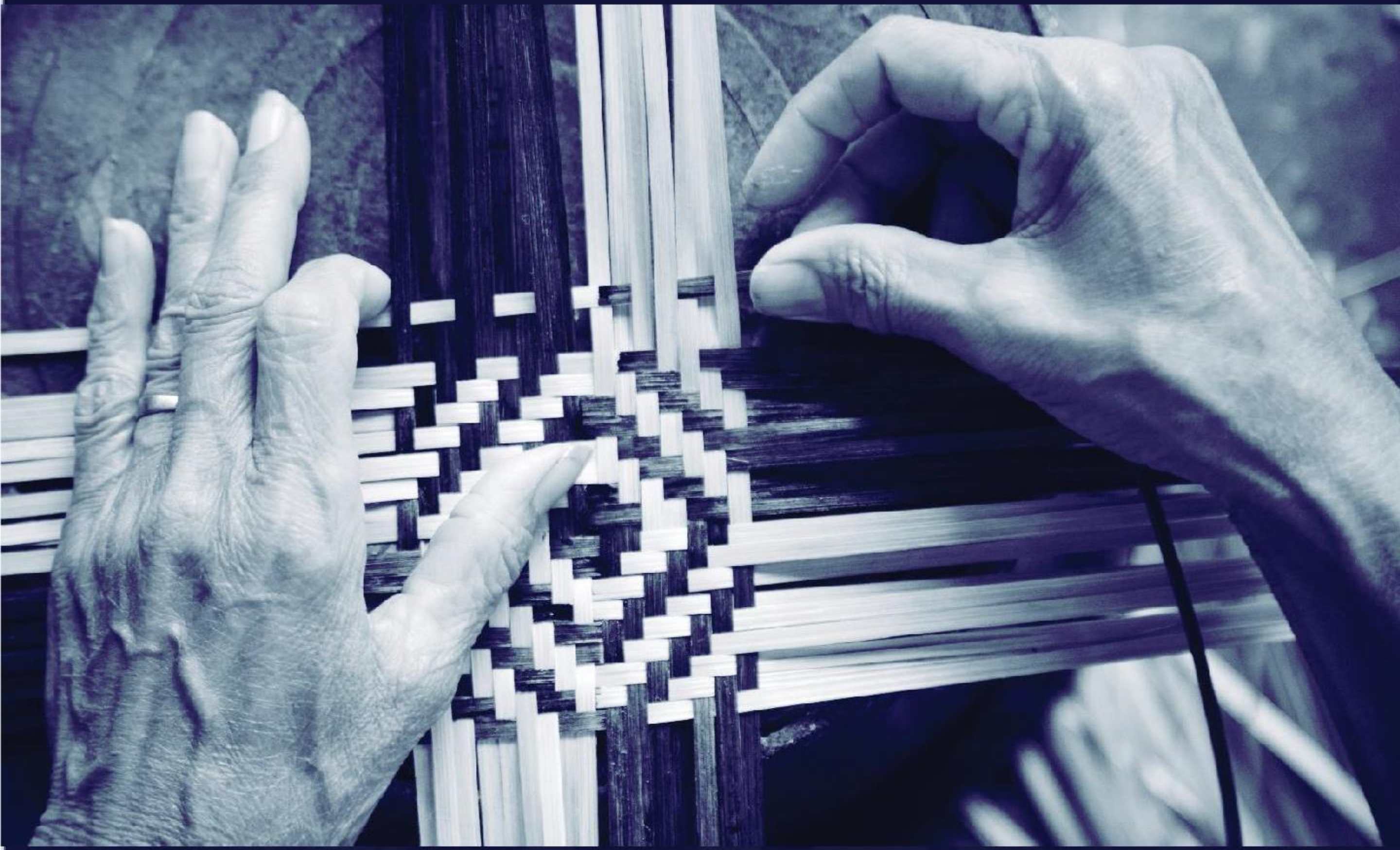
September 2020

Global and MENA Monthly Review

ضمان للإستثمار
DAMAN INVESTMENTS



Highlights of the Month

- Global markets witnessed their first down month after rallying for five straight months
- Resurging virus , lack of fiscal stimulus, weakening service PMIs and noise around election hurt sentiment
- MSCI All Country World Index and S&P 500 Index lost 3.4% and 3.9%, respectively
- MSCI EM Index fell 1.8%, outperforming DM. Turkey (+5.2%), KSA (+2.2%) and Korea (+1.3%) outperformed
- MENA markets outperformed the global markets with S&P Pan Arab Composite LargeMidCap Index up 1.5%
- We maintain a pro-risk stance but recommend increasing cash and FI exposure given near-term uncertainty

Global and MENA Markets

Global Equities: Global markets witnessed their first down month after rallying for five straight months. Resurging coronavirus cases, US Fed pleading for more fiscal stimulus, weakening service PMIs and rising doubts around smooth transition in case of Trump losing election hurt investor sentiment. MSCI All Country World Index and S&P 500 Index lost 3.4% and 3.9%, respectively in September. As we were anticipating the US market witnessed a rotation from growth to value. S&P 500 Value Index fell only 2.6%, while S&P 500 growth Index declined 4.8% on a strong correction in tech. During the first presidential debate, President Trump casted doubts over the legitimacy of mail in ballots which spooked the markets. Democrats and Republicans could not yet agree on a new round of stimulus as they were still far apart on certain issues. The Fed in its FOMC meeting maintained a dovish stance with 13 of 17 officials forecasting rates to be on hold through 2023. Also, the Fed updated its quarterly forecast with a shallower economic contraction this year than before (-3.7% vs -6.5%), but a slower recovery in the coming years. It also cautioned about path to recovery remaining highly uncertain. Macro data was mixed with consumer confidence rebounding in September by 15.5 points to reach 101.8 though remaining below pre-pandemic levels of 132.6. The housing recovery strengthened, with existing homes sales rising 10.5% YoY in August and new home sales rising 43% YoY. The IHS Markit's flash manufacturing PMI climbed to 53.5 in September vs 53.1 prior, the highest since January 2019, while the group's services index eased to 54.6 vs 55. After rising by 1.4mn in August, nonfarm payroll increased by only 666,000 in September, missing street expectations of 800,000, thereby signaling a slowdown in job recovery. The unemployment rate fell more than expected to 7.9% in September from 8.4% in August, but that was mostly due to a sharp decline in labor force participation. Second wave griped Europe with many countries seeing higher case numbers than they did earlier in the year. France, the UK, Poland, the Netherlands and Spain have started taking action to curb the rising case count. The euro-area services PMI dropped to 47.6 in September vs 50.5 prior reflecting declining mobility, while manufacturing PMI rebounded strongly to 53.7 vs 51.7. Stoxx 600 Index fell 1.5%. MSCI EM index fell 1.8%, outperforming DM by 1.8%. EM equity funds saw net subscriptions of $689mn in September (data up till 23rd September). Turkey (+5.2%), Saudi Arabia (+2.2%), Korea (+1.3%), and Mexico (+1.0%) were the best performers, while Indonesia (-11.1%), Colombia (-9.7%), Brazil (-7.7%) and Russia (-7.4%) were the worst performers. India rose 0.6%, while China fell 2.9% on elevated US-China tensions on technology front. The US announced that it will impose export control over Chinese biggest chipmaker SMIC. **Currencies:** The dollar rose with DXY Index up 1.9% on risk-off sentiment and EM FX Index fell 2.2%. EM currencies performance was mixed, with the Korean won (+2.0%), the Taiwanese dollar (+1.5%) and

Major Indices Performance

	Value	MTD Return	YTD Return	PE (x) 1Yr Fwd	PB (x) 1Yr Fwd	Div. Yield TTM
Saudi Arabia- Tadawul	8,299	4.5%	-1.1%	26.4	2.01	2.4%
Dubai - DFMGI	2,273	1.3%	-17.8%	10.5	1.11	4.3%
Abu Dhabi - ADSMI	4,518	0.0%	-11.0%	16.6	1.33	5.4%
Qatar - DSM	9,990	1.5%	-4.2%	16.8	1.49	4.0%
Kuwait - All Share	5,445	2.9%	-13.3%	1.0	0.08	3.5%
Oman* - MSM30	3,615	-4.2%	-9.2%	10.7	0.73	6.8%
Bahrain* - BHSEASI	1,434	3.9%	-10.9%	13.4	0.90	4.7%
Egypt - EGX30	10,989	-3.3%	-21.3%	10.3	1.16	2.8%
Morocco - MOSEMDX	8,117	-1.5%	-18.2%	18.9	2.26	2.5%
Lebanon* - BLOM	602	0.7%	-23.4%	-	0.40	12.1%
S&P Pan Arab Composite	122	1.5%	-9.7%	19.9	1.72	3.2%
S&P 500	3,363	-3.9%	4.1%	25.0	3.57	1.8%
MSCI EM	1,082	-1.8%	-2.9%	17.3	1.65	2.3%
MSCI All Country World	565	-3.4%	0.0%	22.6	2.34	2.1%
MSCI UAE	336	0.7%	-21.4%	11.7	0.97	5.7%

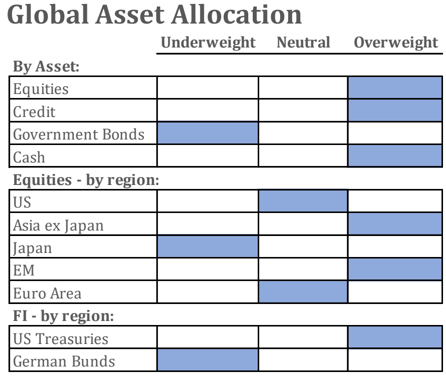
Source: Bloomberg, Daman Investments Asset Management

Note: Oman, Bahrain and Lebanon's PE and PB ratios are trailing

Traded Values

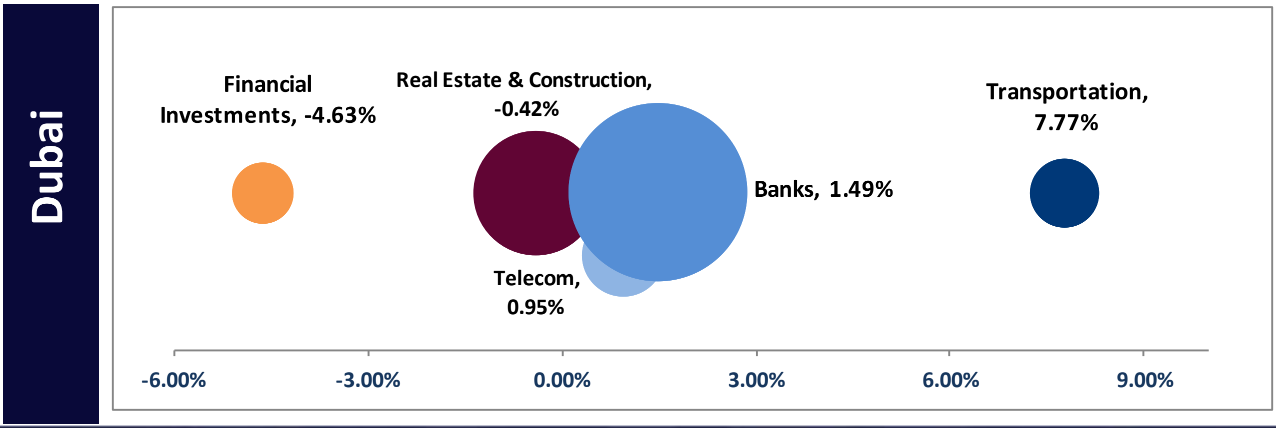
	M Cap (USD bn)	Avg. daily traded value 6M (USD mn)	M cap/Avg. daily traded value (days)
Saudi	565	2,401	235
UAE	250	139	1,801
Qatar	147	82	1,793
Kuwait	103	112	925
Oman	11	2	4,551
Bahrain	22	2	10,763
Egypt	20	40	496

Global Asset Allocation



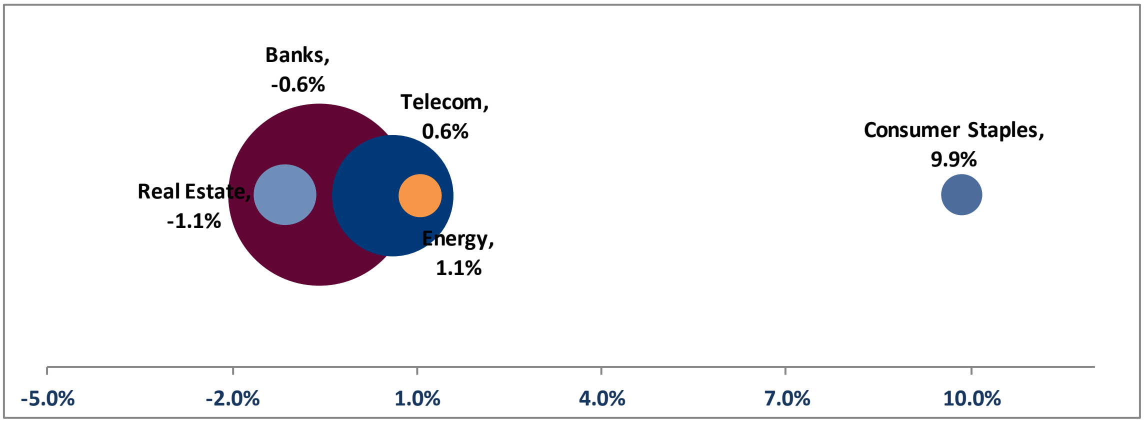
the South African rand (+1.1%) posting the highest returns. The Turkish lira (-4.8%), the Czech koruna (-4.7%), and the Polish zloty (-4.7%) were the worst performers. Although we expect dollar to benefit from uncertainty in the short term, loose monetary policy in US and higher relative rates in EM should weaken the dollar further. **Commodities:** Brent Oil price fell 9.6% in September after 4 months of successive gains. Mounting concerns on fuel demand amidst rising covid-19 cases weighed on oil price. Given mobility concerns, in the near-term we expect oil to be range bound between 39-45 levels. Base metals also came under pressure with Copper, Aluminum and Nickel prices falling 1.8%, 0.9% and 6%, respectively. Gold prices declined 4.2% (to close at $1,886/oz), on higher dollar and some rise in real yields. Barring some short-term volatility, we expect gold to continue to benefit from lose monetary policies and negative real rates. **Outlook:** With rising cases, slowing down economic recovery and uncertainty around US election we acknowledge that the near-term risks have escalated. As a result, we have made some tactical change to the asset allocation. We recommend an overweight in cash position to 5-7% and increased allocation to credit (with a tilt towards investment grade versus high yield) vs equities. However, given low rates, strong system liquidity, our expectation of a gradual recovery, lower hospitalizations and as we near a potential vaccine, we still maintain a pro-risk stance with overweight on equities and credit. We would keep the risk balanced within equities by being equal weight on both growth and value. In value style and credit, we continue to recommend high quality names with strong balance sheets which can weather the downturn for the next one year. We tactically reduce overweight in EM but maintain a bias towards Asia Pacific region. We remain equal weight on US and Europe and underweight on Japan. In fixed income we remain underweight on government bonds. We recommend keeping a small (up to 5%) allocation to gold in the portfolios. **MENA Equities:** Despite declining oil prices, MENA markets outperformed the global markets with S&P Pan Arab Composite LargeMidCap Index 1.5% mainly due to a solid rally in Saudi market. Tadawul Index surged 4.5% during the month on strong gains in materials, telecom and real estate sectors. Since the lows of March, the market has significantly benefited from a strong inflow of funds from retail and high net worth investors which is evident in March – September average daily turnover more than doubled vs 2019. With a 1- year forward PE of 26x we see market as expensive and thereby only continue to focus on thematic and bottom-up driven names. Bin Dawood, Saudi's thirst largest grocer, is offering 20% of its existing shares in its IPO. At the top end of the range, the company would be valued at $2.9bn. We expect a strong response to the IPO and see a 20% upside potential on solid growth potential of 11% 5yr EPS CAGR, brand positioning, and market leading margins. Saudi budget deficit is expected to rise to 12% in 2020e and then to narrow to 3% in 2022e, according to the finance ministry. The spending is expected to decline 7% YoY in 2021e. We believe the country has the fiscal room with public debt to GDP at only c.30%. However, given the long-term headwinds to oil price, we believe the country has to look for a sustainable path to rein-in its deficit. Kuwait All Share Index gained 2.9% as the active investors look to pre-position before the November-end MSCI EM Index inclusion. Kuwait's ruler Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah died at age 91. He was succeeded by Crown Prince Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, 83, a half-brother who has served as interior minister and deputy chief of the national guard. The new ruler faces a challenging task of breaking the political gridlock for the debt law to be passed to fund steep fiscal deficit. Dubai's DFMG Index gained 1.3%, while Abu Dhabi's ADSM Index closed flat. ADQ, a UAE based holding company, acquired 22% stake in Aramex which is expected to complement ADQ's logistics operations. Arabtec shareholders voted for an insolvent liquidation. The company has faced significant loses over the last 4 quarters, which wiped out its equity. It also piled up significant receivables and payables. We believe this would have a cascading impact on banks, subcontractors and the economy. Oman's MSM30 Index and Egypt's EGX30 Index fell 4.2% and 3.3%, respectively. YTD Egypt has been the worst performer on a low investor interest. Given the expected short-term volatility we have tactically turned cautious in our MENA balanced portfolios by increasing cash between 7-10% and have raised allocation to fixed income.

Sectors Performance of Key MENA Indices (MoM Change)

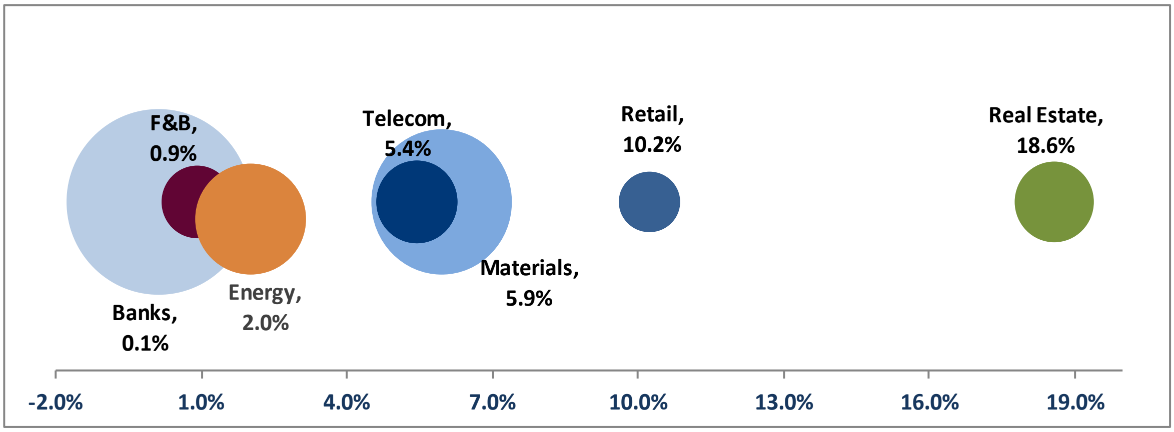


Sectors Performance of Key MENA Indices (MoM Change)

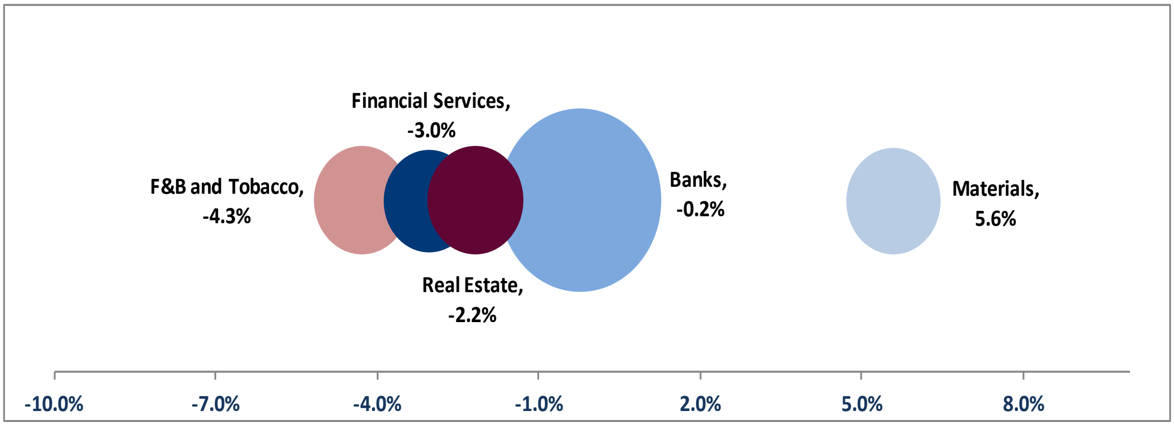
Abu Dhabi



Saudi Arabia



Egypt



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

MENA Valuations

PE (x) 1Yr Fwd

Saudi Arabia	26.4
Kuwait	21.0
Morocco	18.9
Qatar	16.8
Abu Dhabi	16.6
Oman	10.7
Dubai	10.5
Egypt	10.3

Dividend Yield TTM

Oman	6.8%
Abu Dhabi	5.4%
Dubai	4.3%
Qatar	4.0%
Kuwait	3.5%
Egypt	2.8%
Morocco	2.5%
Saudi Arabia	2.4%

Note: Oman and Lebanon's PE ratio is trailing

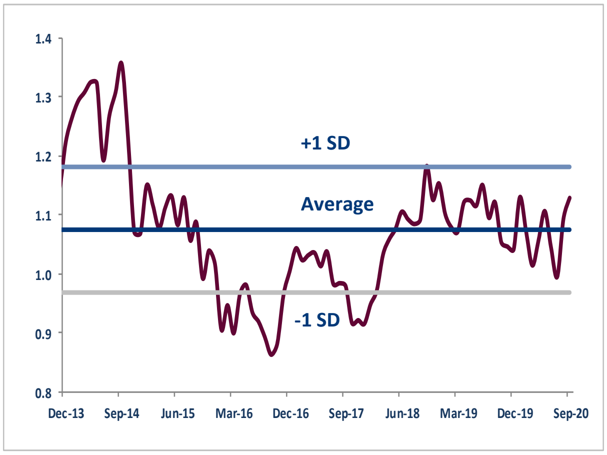
Source: Bloomberg, Daman Investments Asset Management

MENA Relative Valuations Versus Emerging Markets

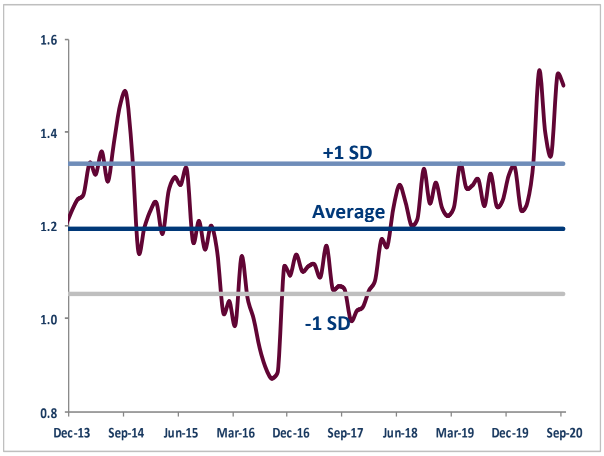
Based on our relative PE analysis of MENA markets versus Emerging Markets, we believe that MENA markets offer selective value as they currently trade close to the historical average relative PE of 1.07 vs MSCI EM. MENA offers higher dividend yield of 3.2% vs EM at 2.3%.

UAE is trading about 1 standard deviation below the 6-year historical average relative PE of 0.93 vs MSCI EM. UAE's dividend yield is also quite attractive at 4.9%. 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.

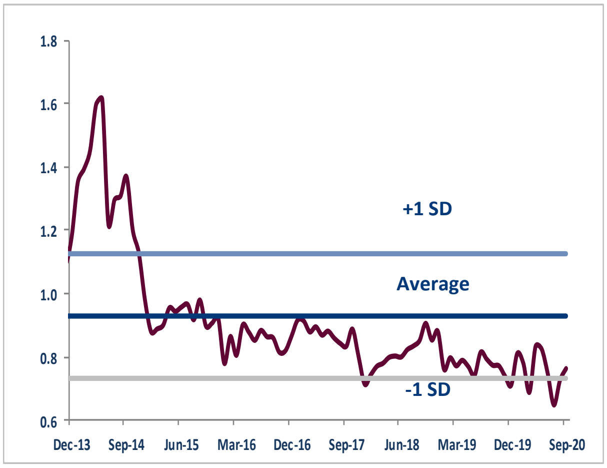
Relative PE (1 yr Fwd.): MENA vs MSCI EM



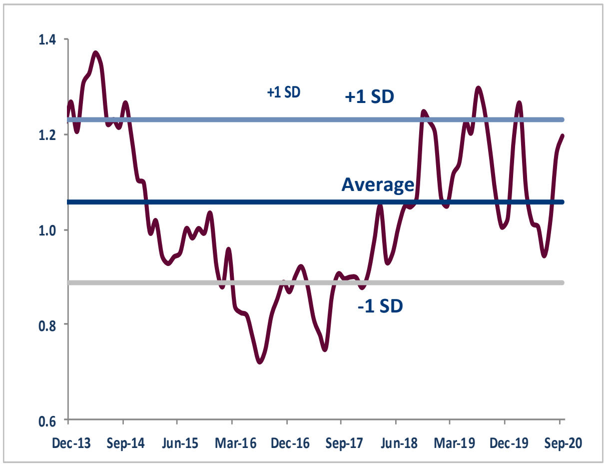
Relative PE (1 yr Fwd.): Saudi vs MSCI EM



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



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



Source: Bloomberg, Daman Investments Asset Management

Global and MENA Fixed Income

Global: Global bond markets witnessed a second consecutive month of decline with Barclays Global Aggregate USD Index (a benchmark representing investment grade bonds) closing the month down 0.4%. 10-Year yield slightly declined by 2bps to end the month at 0.68%. High yield underperformed with Barclays Global High Yield Index and EM High Yield USD Index declining 1.9% and 2.7%, respectively. Spreads expanded with Barclays US Corporate Index and Barclays US Corporate High Yield Index spreads to US Treasury widening 7bps and 28bps, respectively. The rebound in US retail sales slowed with August sales rising 0.6% MoM vs 0.9% in July, as federal relief for jobless Americans and small businesses dried up. We continue to prefer an exposure to credit in a low yielding backdrop. However, given the uncertain environment, in the near-term we have turned more cautious and have tactically turned overweight on investment grade versus high yield. In EM bonds we like an exposure to Indonesia, Mexico, Sharjah, Saudi Arabia, and Abu Dhabi, in investment grade space and Egypt, Sri Lanka, Dominican Republic, Trinidad & Tobago, Jordan, Ukraine, Uzbekistan, Oman and Bahrain in high yield space. EM bond funds saw net subscriptions of 5.3bn in September (data up till 23rd September).

MENA: MENA fixed income also fell with Barclays GCC Credit +HY Index and Citi MENA Broad Bond Index declining 0.6% and 0.8%, respectively. Barclays GCC Credit +HY Index spread versus US Treasury widened by 6bps. We believe there is still much more scope for spread to compress by about 55 bps from the current levels and to almost reach the level seen in February. Regional investment grade USD sovereign bonds fell with Saudi 9-year, Qatar 9-year and Abu Dhabi 7-year fixed income securities falling 0.2%. Regional high yield USD sovereign bonds underperformed with Oman 9-year, Bahrain 9-year and Egypt 10-year bonds plummeting 5.9%, 5.1% and 2.5%, respectively. We continue to see attractive opportunities in high yield corporate space in the region especially in real estate, energy, and banking sectors. Egypt's central banks reduced the lending rate by 0.5% to 9.75% after the inflation fell to 3.4% YoY in August. This was the first rate cut since March. The National Bank of Egypt and Banque Misr halted the issuance of 15% savings certificates. Egypt sold $750 million MENA region's first sovereign green bond. The issuance was nearly 5 times oversubscribed. Turkey's debt rating was cut by Moody's to B2, the lowest grade every assigned to the country. Moody's downgraded Kuwait's foreign issuer rating to A1 from Aa2. After UAE Bahrain normalized its ties with Israel.

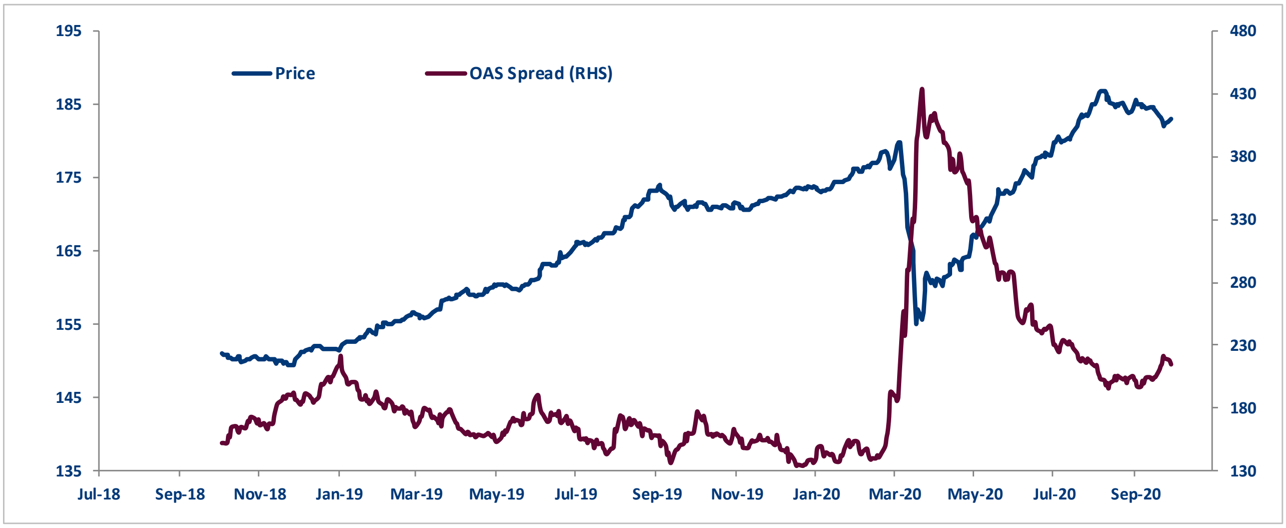
Performance

	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	183	-0.6%	5.3%
Citi MENA Broad Bond Index	167	-0.8%	3.6%
Barclays Global Aggregate Index	541	-0.4%	5.7%
Barclays US Treasury Index	2,581	0.1%	8.9%
Barclays US Corporate Index	3,455	-0.3%	6.6%
Barclays EM Corporate Index	303	-0.6%	3.5%
10-year US Treasury yield* (%)	0.68	-2	-123
10-year Germany Treasury yield* (%)	-0.52	-13	-34
9-year Saudi Arabia Govt USD Bond yield* (%)	2.13	1	-71
7-year Abu Dhabi Govt USD Bond yield* (%)	1.42	1	-99
7-year Kuwait Govt USD Bond yield* (%)	1.41	5	-93
9-year Oman Govt USD Bond yield* (%)	7.16	90	178
9-year Bahrain Govt USD Bond yield* (%)	5.68	76	112
9-year Qatar Govt USD Bond yield* (%)	1.80	0	-76
10-year Egypt Govt USD Bond yield* (%)	6.96	36	177
EIBOR 3M* (%)	0.49	-4	-172
SAIBOR 3M* (%)	0.87	-2	-136
QAIBOR 3M* (%)	0.93	-2	-132
Dubai 5 Year CDS* (bps)	57	-1	10
Barclays Global High yiled Index	1,406	-1.9%	-0.6%
Barclays EM High yield	1,344	-2.7%	-3.5%
JPM EM Global Bond Index	605	-2.0%	-0.3%
Dow Jones Sukuk	109	-0.3%	3.2%

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)	40.95	-9.6%	-38.0%
Natural Gas (USD/mmbtu)	2.53	-3.9%	15.4%
Gold (USD/Ounce)	1,886	-4.2%	24.3%
Copper (USD/MT)	6,668	-0.4%	8.4%
Aluminium (USD/MT)	1,729	-2.0%	-2.9%
Nickel (USD/MT)	14,480	-5.6%	3.8%
Urea Middle East (USD/MT)	265	-5.4%	9.5%
Methanol China (USD/MT)	206	3.2%	-27.6%
SE Asia Polyethylene (USD/MT)	980	9.7%	0.6%
Polypropylene (USD/MT)	950	10.0%	-3.1%
US Dollar Index	93.89	1.9%	-2.6%
USD/EGP	15.76	-0.7%	-1.9%
EUR/USD	1.17	-1.8%	4.5%
GBP/USD	1.29	-3.4%	-2.5%
USD/JPY	105.48	-0.4%	-2.9%

Source: Bloomberg, Daman Investments Asset Management

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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.

The document is issued by Daman Investments PSC, which is authorized and regulated by the Emirates Securities and Commodities Authority (SCA).

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

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