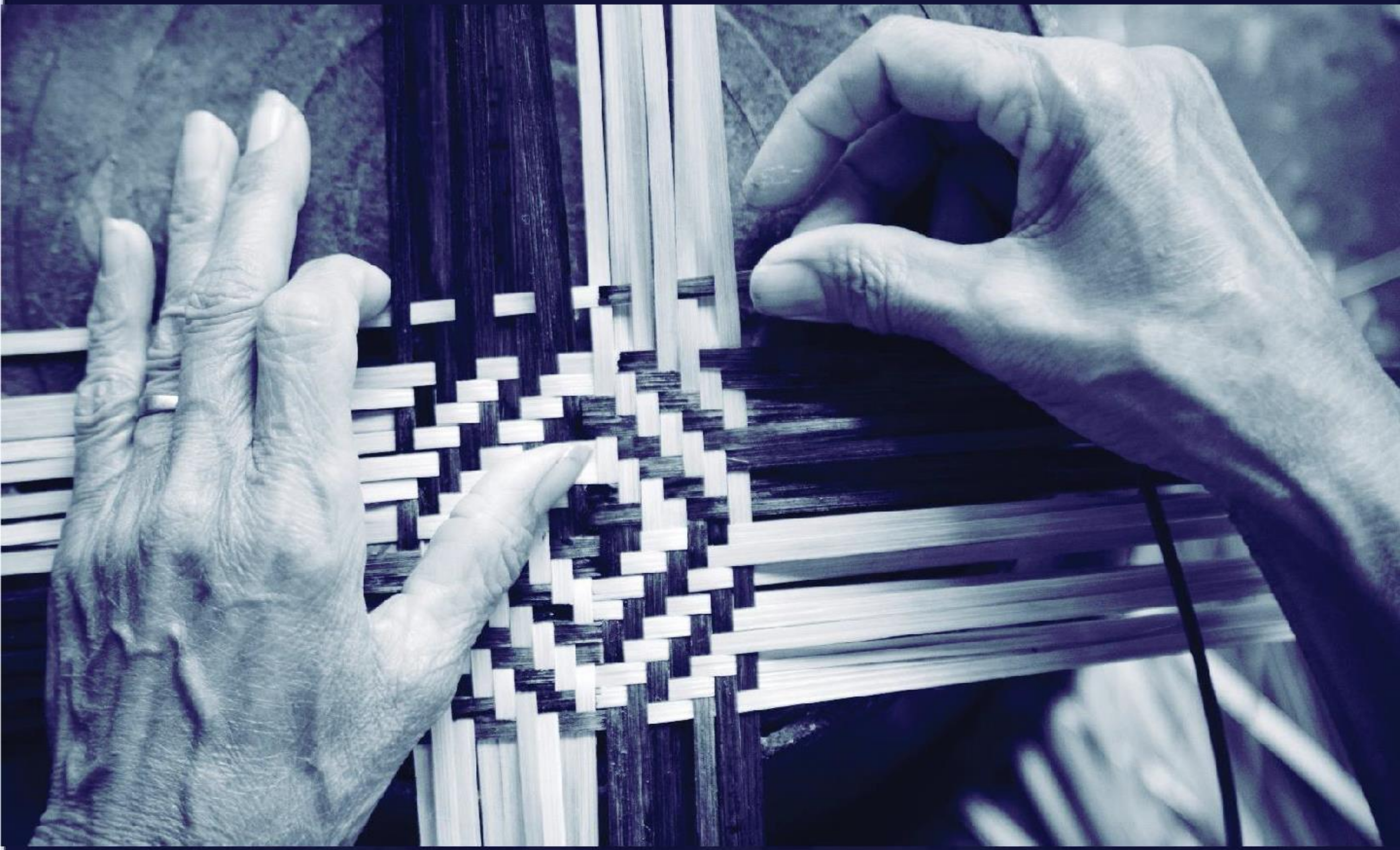
June 2021

Global and MENA Monthly Review

ضمان للإستثمار
DAMAN INVESTMENTS



Highlights of the Month

- Major equity markets reported a fifth consecutive month of gains, with growth outperforming value
- High inflation led the Fed to make a hawkish tilt by acknowledging tapering and bringing forward rate hikes
- MSCI All Country World Index rose 1.2% and DM increased by 1.4%, outperforming EM by 1.5%
- S&P Pan Arab Composite Index increased 1.8% on strong gains in Saudi and Abu Dhabi
- In our EM fixed income universe, the Bloomberg Barclays EM USD Aggregate TRI returned 0.7%
- Brent rallied 8.4% while base and precious metals – copper and gold lost 8.8% and 7.2%, respectively
- We maintain a pro-risk stance with overweight on equities and underweight on fixed income

www.daman.ae

Global Equities

Global Equities: Global equities continued to move higher in June and posted their fifth consecutive month of gains. The **MSCI All Country World (ACW) Index gained 1.2% and US outperformed with S&P 500 Index closing the month up 2.2%.** The US CPI rose 5% YoY in May (0.5% MoM), the fastest pace since August 2008 and higher than consensus expectations of 4.7%. Core CPI increased 3.8% vs estimates of 3.5%. Supply chain issues, reopening linked pent-up demand and a low base effect were behind such a high print. Prices for used cars, airline fares, furniture and apparel drove most of this increase. While the Federal reserve continued to view this rise in inflation as transitory, it delivered a hawkish surprise acknowledging that tapering is being discussed. The Federal Open Market Committee median dot plot indicates two rate hikes in 2023 up from none in March. The Fed also sharply increased its inflation forecasts to 3.4% this year, above its previous estimate of 2.4%. Core PCE inflation is expected to come in at 3.0% in 2021, up from its March forecast of 2.2%. However, it's expected to decline to 2.1% in 2022.

Despite the Fed's Hawkish tilt, the 10-year yield closed the month down 13bps as the Fed appeared to be taking control of an inflation overshoot (part of its dual mandate) rather than mainly being focused on bringing back lost jobs. This also led the 10-year breakeven inflation rate to decline by 11bps. Yield curve flattened as short-term rates rose on Fed bringing forward its rate hike projections. US-Treasury 10-2 and 30-2 spreads declined 23 and 30bps, respectively. Decline in 10-year treasury yields and breakeven inflation rate, and flattening yield curve hurt the reflation trade and led growth to outperform value. **MSCI ACW Growth Index gained 3.9% outperforming the MSCI ACW Value Index by 5.4%. Nasdaq Composite Index rose 5.5% outperforming Dow Jones Industrial Average Index by 5.6%.** Gains in S&P 500 were also underpinned by recent bipartisan agreement on an infrastructure package, increasing the likelihood of the deal becoming law.

The plan will inject $1.2tn over eight years. Reopening across the developed world allowed the services sector to catch up with goods and led the developed world markets to outperform EM. US June IHS Markit Flash Service PMI cooled down to 64.8 from 70.4 in May on fading impact of stimulus checks. Manufacturing PMI came in at 62.1, flat MoM.

Europe equities gained with Stoxx 600 Index rising 1.4% as the reopening and demand recovery continued with improving vaccination rates. 51% of the population have received a single dose vs 54% in US and 35% of the population have been fully vaccinated vs 47% in US. Eurozone June IHS Markit Services PMI increased to 58 from 55.5 in May. Manufacturing PMI rose to 63.4 from 63.1. The spread of the delta variant is a potential concern, as it could slow the full reopening of economies. However, given high vaccination rates in the developed world, the increasing number of cases has so far not translated into increasing hospitalizations.

EM Equities: MSCI EM Index fell 0.1% underperforming DM by 1.3% on rising dollar, discussions around fed tapering and high Covid-19 cases continuing to restrict recovery. After coming under pressure during the first half of the month, markets did witness a recovery in latter half on the US infrastructure plan spurring risk appetite. LatAm was the best performer (+2.4%), while Asia (-0.2%) and EMEA (-0.9%) posted negative returns amongst markets. **Columbia (+5.4%), Brazil (+4.8%), Philippines (+4.4%), Russia (+3.9%)** and **Saudi Arabia (+3.6%)** were the best performers, while **Peru (-11.9%), Pakistan (-7.2%), and Indonesia (-5.2%)** were the worst performers. Strong returns in Brazil was primarily on account of the Real appreciating by 5.1%.

Major Indices Performance

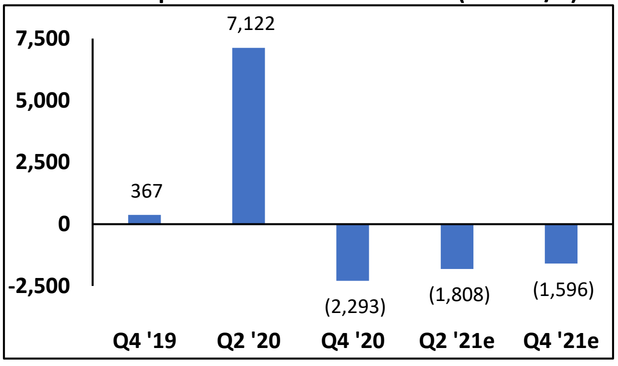
	Value	MTD Return	YTD Return	PE (x) 1Yr Fwd	PB (x) 1Yr Fwd	Div. Yield TTM
Saudi Arabia- Tadawul	10,984	4.1%	26.4%	20.3	2.4	1.9%
Dubai - DFMGI	2,811	0.5%	12.8%	12.8	1.0	2.9%
Abu Dhabi - ADSMI	6,835	4.2%	35.5%	18.8	2.0	3.5%
Qatar - DSM	10,731	-0.2%	2.8%	14.0	1.6	2.7%
Kuwait - All Share	6,387	2.8%	15.2%	21.2	2.0	2.0%
Oman* - MSM30	4,063	5.5%	11.1%	14.4	0.8	3.8%
Bahrain - BHSEASI	1,588	4.0%	6.6%	3.7	1.0	2.1%
Egypt - EGX30	10,257	-0.5%	-5.4%	8.2	1.0	1.7%
Morocco - MOSEMDX	10,091	2.4%	9.8%	21.9	2.7	3.0%
Lebanon* - BLOM	884	-1.7%	34.4%	34.0	0.7	0.0%
S&P Pan Arab Composite	156	1.8%	20.2%	17.6	2.1	2.3%
Israel - TA35	1,683	-0.8%	12.3%	12.5	1.5	0.8%
Turkey - XU100	1,356	-4.5%	-8.2%	6.2	0.9	2.9%
Pakistan - KSE100	47,356	-1.1%	8.2%	6.3	0.9	5.4%
S&P 500	4,298	2.2%	14.4%	22.8	4.4	1.3%
STOXX 600	453	1.4%	13.5%	17.6	2.1	2.4%
MSCI EM	1,375	-0.1%	6.5%	14.4	1.9	1.9%
MSCI All Country World	720	1.2%	11.4%	19.6	2.9	1.7%
MSCI World	3,017	1.4%	12.2%	20.7	3.1	1.7%

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

A strong currency appreciation was underpinned by improvement in sentiment linked to economy (investments grew almost 20% q/q) and politics (Congress approved the Eletrobras privatization bill, which will dilute the federal government's stake from 60% to 45%). Higher oil prices supported a strong up move in Colombia, Russia and Saudi Arabia. South Africa and Indonesia underperformed on rising Covid-19 cases and new lockdowns. Peru's underperformance came in the context of the presidential election of the leftist candidate Pedro Castillo.

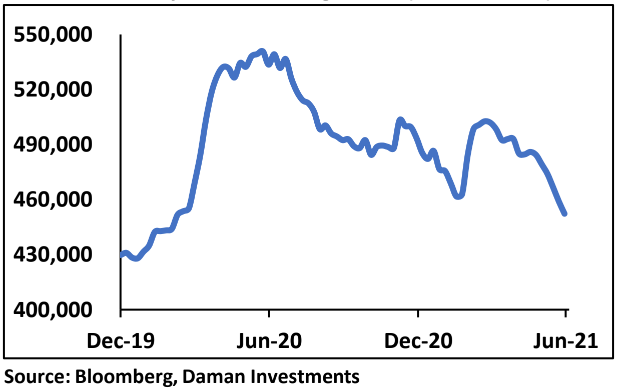
Commodities: Oil: Brent oil price rallied 8.4% reaching $75.13/bbl on strong demand recovery in US, economic reopening in Europe, and delay in Iranian supply coming to the market which more than offset concerns linked to wobbly demand recovery in EM. We upgrade our **brent** price forecast to **$80 levels from $75 by 3Q 2021** on strong summer travel demand in developed markets, non-OPEC+ producers supply not responding to higher oil prices, delay in return of Iranian supply and OPEC+ gradually adding supply. We expect the oil market to remain in deficit of **c.1.7m b/d** during the remaining period of 2021. We are monitoring the risk linked to the delta variant which can reduce travel demand and delay economic reopening.

Crude oil is expected to remain in deficit ('000s b/d)



Source: IEA, OPEC, Daman Investments

US oil inventory in a declining trend ('000 barrels)



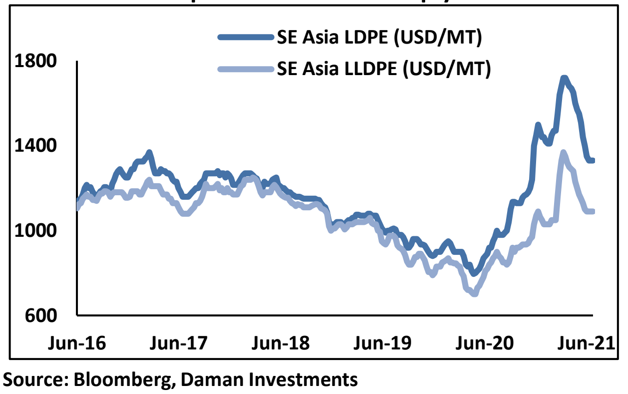
Source: Bloomberg, Daman Investments

Metals: Copper prices fell 8.8% as reflation trade got hurt and China vowed to increase supply from its reserves to cool down a sharp YTD rally in prices. Aluminum and Steel rebar prices showed resilience with prices rising on a strong demand linked to autos, infrastructure and construction, and constrained supplies. We expect **aluminum prices to average $2,300/MT (+34% YoY) in 2021** due to the pent-up auto demand, pick up in global infrastructure spending and China looking to constrain supply of smelters on environmental concerns. We expect **US Midwest Steel Rebar price to decline** from the current inflated levels of $925/MT and to average **$800/MT (+35% YoY) in 2021**. **Copper in the near-term may face headwinds from increased inventory releases from China,** however, in the mid-term, it should benefit from global infrastructure spending and shift towards green energy. We expect the price of copper to average **$8800/MT (+42% YoY).**

Precious metals: Gold price fell 7.2% on stronger dollar and a hawkish Fed pivot. Given our pro-risk stance, we are neutral on gold.

Petchems: Olefins prices continued to cool down and supply started to come back. **PP, LLDPE and LDPE prices fell 1.6%, 3.5% and 7.6%,** respectively. LDPE: We expect **LDPE price to average $1,300/MT** in 2021 (+29% YoY) on strong demand tied to food/hygiene/medical related packaging, further inventory buildup from very low levels and lesser upcoming supply vs HDPE and LLDPE. **Methanol:** We expect prices to **average $290/MT** in 2021 (+38% YoY) on higher oil and coal prices and higher demand for blending on recovering oil demand and near-term constrained supplies.

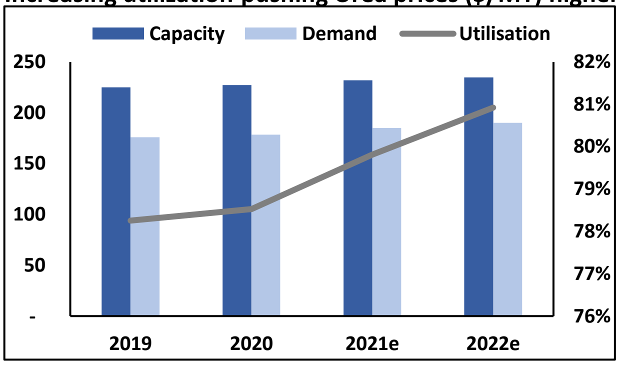
LDPE and LLDPE prices corrected sharply



Source: Bloomberg, Daman Investments

Fertilizers: Middle East **urea price rallied 15.4**% (+70% YTD) and Saudi DAP prices gained 2.7% (+48% YTD) on strong demand from India ahead of the Monsoon season. We expect Urea prices to **average $320/MT in 2021 (+28% YoY)** and DAP prices to average $450/MT (+44% YoY) on high crop prices YTD (**corn up +44% and Soyabean up +10%),** lower than expected crop yields in US constraining crop supplies thereby needing more fertilizers, bad weather conditions in US and Brazil and China continuing to pile on grain inventories. In general, we expect petrochemical and fertilizer prices to weaken during 2H 2021 as supplies improve but to remain much above 2020 average levels.

Increasing utilization pushing Urea prices ($/MT) higher



Source: IHS, Daman Investments

Currencies: The dollar Index (DXY) gained 2.9% during the month on hawkish tile by Fed**. JP Morgan EM Currency Index fell 1.2%. Hungarian Forint (-4.3%), Polish Zloty (-3.9%) and South African Rand (-3.8%) posted the lowest returns**. Brazilian Real (+5.1%), Russian Ruble (+0.4%), and Mexican Peso (0.1%) were the only currencies posting positive returns. Given the higher vaccination rate in US, hawkish Fed pivot, better economic growth in US vs RoW, we expect dollar to remain strong in the near term. However, as the vaccinations in European and EM economies gain pace and scale during the end 3Q2021, we expect dollar to resume its decline but at a gradual pace.

Global Asset Allocation:

By Asset:	Underweight	Neutral	Overweight
Equities			■
Fixed Income	■		
Commodities			■
Cash	■		

Equities - by region:	Underweight	Neutral	Overweight
US		■	
Japan	■		
Euro Area			■
EM Asia			■
EM Europe		■	
EM MENA			■
EM LatAm	■		

Fixed Income - by region:	Underweight	Neutral	Overweight
Asia Pacific	■		
Africa and Middle East		■	
South and Central America		■	
Eastern Europe			■
North America			■
Central Asia		■	

Given our expectation of a continued global economic recovery and earnings growth on gradual reopening, we continue to keep a pro risk stance by keeping an overweight exposure to equities and underweight fixed income. With Fed taking back control of the inflation narrative the chance of breakeven inflation expectations to move significantly higher from here has reduced. Hence, we recommend reducing the value and cyclical exposure and to seek a more diversified exposure by adding growth and defensive names. A diversified exposure can also reduce the near-term risk linked to data volatility tied to jobs and inflation as the reopening continues with a tail risk of delta variant and fed increasing its hawkishness. Given that we are moving away from an initial recovery phase, especially, in markets where vaccination rates are on the higher side, we see the markets as more alpha than a beta play.

Within value style we continue to like names in energy and financial sectors. Financials will benefit from higher loan growth linked to higher than trend economic growth until 2022 and improvement in asset quality. We expect the performance divergence to continue between developed and emerging markets as EMs continue to struggle from new infection waves on lower vaccinate rates. We remain equal weight on US as earnings growth momentum would peak post Q2 results. However, we like an exposure to quality and structural growth play in the technology sector along with Financials. Industrials and Materials could also see a strong bid if infrastructure plan gets passed in the senate.

We stay overweight on Europe on the vaccination rate expected to reach 70% of the population by September and on further improvement in services PMI with manufacturing PMI holding strong. We maintain our neutral stance on EMs given our near-term view of a strong dollar, hawkish Fed and low vaccination rates. EMs may see a policy divergence vs DM as EM central banks would need to counter the threat of higher near-term inflation and strengthening dollar with tighter monetary policies. Within EM we like an exposure to **Asian markets (South Korea, Taiwan, Thailand, China and India), MENA markets (Saudi, UAE, Qatar and Israel)** and selective **LATAM markets, especially Chile and Mexico**.

In fixed income - we are neutral high yield (HY) and investment grade (IG) while being overweight EM sovereign Hard Currency on the back of strong commodity prices.

The macro backdrop for EM sovereign credit has become more challenging over June, with still **improving EM growth and higher commodity prices** providing a tailwind that has been partially offset by the early tilt of policy normalisation across central banks, as well as the rapid spread of the delta variant of Covid-19.

While **EM sovereign credit continues to be fairly priced, we prefer long-end of spread curves, especially in IG. Within IG**, we continue to point to selectively pick opportunities in **LATAM** such as **Peru**, **Colombia**, **Mexico** and to a lesser extent **Chile**, which reflects a higher risk premium following political developments in the region. **In HY**, we continue to **favour Sri Lanka, Gabon, Cameroon, Turkey while adding El Salvador with the risk being priced in.** Further analysis & outlook of fixed income is mentioned starting page 9.

MENA Equities: MENA markets witnessed a sixth consecutive month of gains on stronger oil prices and improved investor sentiment. T**he S&P Pan Arab Composite LargeMidCap Index rose 1.8%**. **Oman's MSX30 Index outperformed, rising 5.5%**, on a strong performance of the Financial Services Sector. However, the country is still grappling with high Covid-19 cases, which rose 114% MoM. The Sultanate reimposed a night-time curfew in the middle of the month. **Abu Dhabi's ADSM Index closed the month up 4.2% on strong performance of IHC and Aldar**. IHC became UAE's most valuable company after its subsidiary Alpha Dhabi made its trading debut. **Dubai's DFMGI Index witnessed a flattish performance rising 0.5%.** UAE's vaccination drive witnessed a substantial progress, with over 60% of the population vaccinated with both doses, according to the MOHAP.

Mubadala also announced plans to raise up to $810mn by selling up to a 40% stake in its fully owned subsidiary Al Yah Satellite. The IPO's price range was set between AED 2.55 and AED 3.05 per share, valuing the company between $1.7bn and $2.0bn. We see the IPO as attractively priced with the company offering a 5.7% dividend yield at the middle of the range. Given, the company's strong cash flow visibility tied to long-term contracts, the management has a strong dividend commitment. Abu Dhabi announced plans to invest $6bn in the cultural and creative industries over the next five years, in another push to diversify the economy away from oil. The investment will reportedly go to building museums, as well as sectors ranging from media, gaming, and music to cultural heritage. We see this move to positively impact construction, materials and the banking sector in the near-term. Hussain Sajwani's investment company Maple Invest made a voluntary conditional offer to acquire the remaining 28% stake in Damac Properties that is not owned by Maple or its affiliates. However, the offer was later postponed until a review by the SCA regarding the offer was completed. Dubai's real estate market continued its strong recovery, with June sales up 34% MoM while sales during H1 2021 were up 93% YoY. Our thesis on Emaar and Emaar Development is underpinned on a continued recovery in the real estate demand and prices with new launches remaining in check.

Saudi Arabia's Tadawul Index jumped 4.1%, on strong gains in banking, telecom and the F&B sectors. The Saudi government announced that only nationals and residents would be allowed to attend the annual Hajj pilgrimage for the second year running. Furthermore, authorities also announced that only vaccinated individuals would be allowed to enter shopping malls from August 2021. As a result, we continue to avoid travel and tourism linked names in Saudi Arabia. A new National Transport and Logistics Strategy was launched, aiming to position the Kingdom amongst the top five hubs in the world for logistics. We see Saudi Ground Services, Saudi Catering and SISCO (port operator) as the key mid-term beneficiaries of this initiative.

Saudi's Central Bank granted digital banking licenses to two firms. STC Pay, a subsidiary of STC, will convert into a digital bank with a capital of SAR2.5bn while another unit of ARTAR would form the Saudi Digital Bank with a capital of SAR 1.5bn. We see this as value enhancing for STC, which we like as a strong dividend play. SAMA also announced the extension of its Deferred Payment Programme for SMEs impacted by Covid-19, until the end of September. **The CMA also approved a 30% offering of Tanmiah – a leading poultry producer in Saudi**. We see a strong upside in the name, as the company has a strong expansion plan to triple its poultry capacity which is in-line with the kingdoms plan to increase local poultry production to 80% of demand from 40% currently.

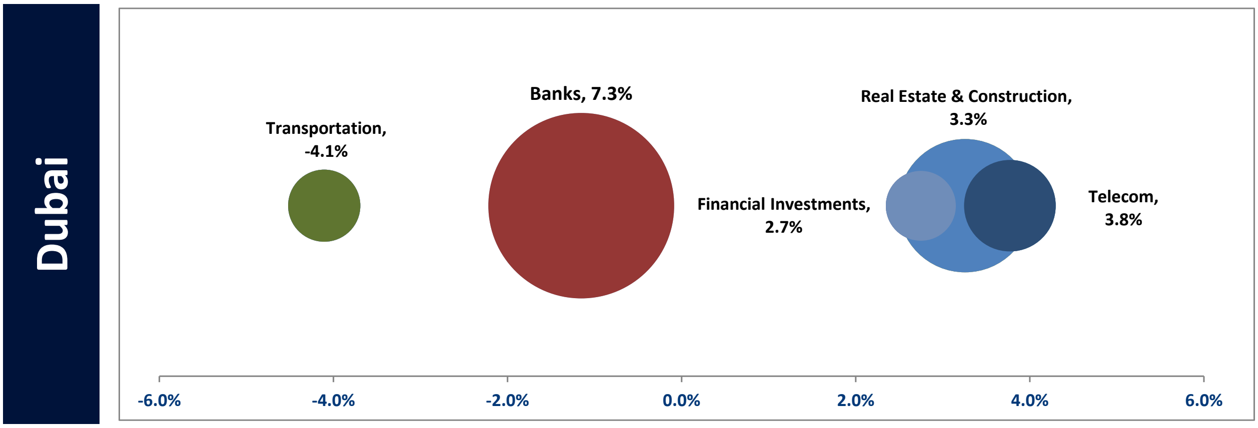
Bahrain's BASI (+4.0%), and **Kuwait's All Share Index (+2.8%)** also ended the month on a strong note. The Bahraini government announced a new economic stimulus program worth $1.2bn to mitigate the impact of Covid-19. **Qatar's DSM Index** and **Egypt's EGX30 Index fell 0.2% and 0.5%, respectively**. In Qatar, the government announced that only fully vaccinated individuals would be allowed to attend the FIFA World Cup, which is scheduled to take place at the end of next year. **Israel's TA35 Index lost 0.8%** as the nation saw a resurgence in Covid-19 cases which led to authorities reinstating the mask mandate. **Pakistan's KSE 100 was down 1.1%** as the government hit an impasse with the IMF regarding its $6bn programme. Lastly, **Turkey's XU100 Index witnessed a major sell off, losing 4.5%**, as the Turkish Lira hit an all-time low against the USD.

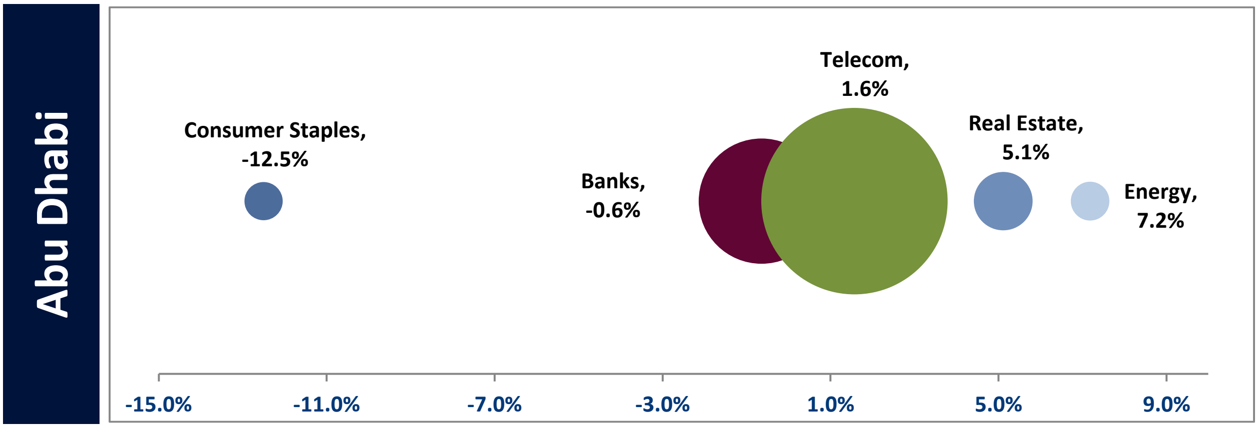
MENA recommendations: Given the strong oil price environment, we expect the GCC economies to do well with most of the major economies reporting fiscal and current account surpluses. Also there has been a strong push by the GCC to diversify away from oil by investing money in the non-oil sector. We expect the effect of higher oil prices and capital spending to spill over into the broader economy. **Hence along with our liking for the value and cyclical names in banks, construction materials and industrials we also prefer bottom-up plays in sectors such as retail, F&B and IT**. We have significantly reduced our exposure to petrochemical and metals post a broad-based rally in these sectors. We continue to like an exposure to select **fertilizer names in the region as the Urea prices have hit a 9-year high**. We recently reduced our exposure to some names such as Ma'aden and IQCD, given their rally had been quite sharp.

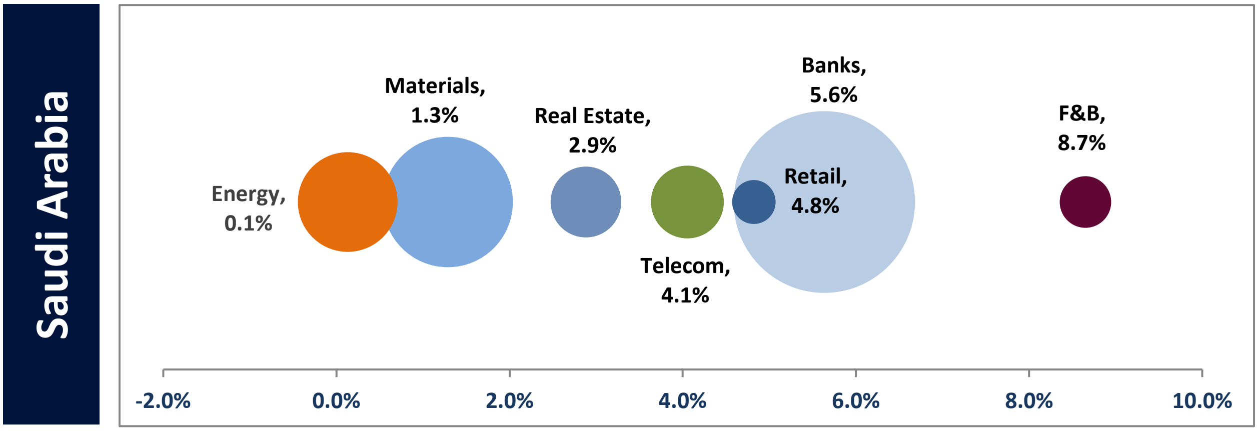
Within the UAE, we continue to like reopening plays such as airlines, hotels and malls, particularly given UAE's fast vaccine rollout. Reopening names could be at risk if the delta variant spreads. However, given that over 70% of the population has received at least one dose, which has translated into a low death rate, this gives us confidence. While our top pick in the banking sector remains ENBD, we also like ADCB and DIB. As the economy picks up steam, we believe that cost of risk will decrease, and loan growth will increase. **In Saudi, we like an exposure to specialty retailers (Jarir and Extra) and industrial names (Bawan)** as we believe the capex cycle will kick in soon. We also initiated a position in Al Yamamah Steel - a leading steel manufacturer in Saudi with a market share of c.35% in tubes and c.6% in the rebar segment. We see further upside in steel prices due to production bottlenecks as well as a reduction in production capacity around the world. Furthermore, the demand for steel for mega projects in Saudi should pick up pace from next year.

In Egypt, a lack of catalysts and foreign interests means we remain highly selective. We like Cleopatra Hospitals Group as the outlook for growth in earnings and margins remains strong. Their BOD also approved a share buyback programme of up to 10% of the company's shares, implying that the company's shares are currently trading at a discount to its intrinsic value. We also like MOPCO, particularly given the surge in urea prices and their exposure to urea exports. We continue to avoid the local currency exposure to Turkey due to the uncertainty linked to the central bank's policy direction. **On the high dividend yield side, we like names in education in Kuwait (Humansoft), telecom operators in Saudi and UAE (Etisalat and STC) and regional top banks with high capital adequacy (NBK, SNB, DIB and Riyad Bank)**.

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

PE (x) 1Yr Fwd

Kuwait	20.7
Saudi Arabia	19.8
Morocco	19.2
Abu Dhabi	18.1
Qatar	14.0
Dubai	13.1
Oman	12.0
Egypt	8.0
Bahrain	4.2

Dividend Yield TTM

Oman	4.6%
Abu Dhabi	3.7%
Egypt	2.9%
Dubai	2.9%
Morocco	2.8%
Qatar	2.7%
Kuwait	2.2%
Bahrain	2.2%
Saudi Arabia	2.0%

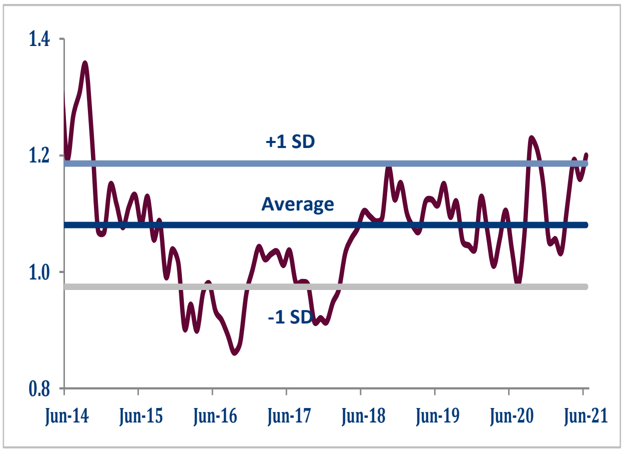
Source: Bloomberg, Daman Investments Asset Management

MENA Relative Valuations Versus Emerging Markets

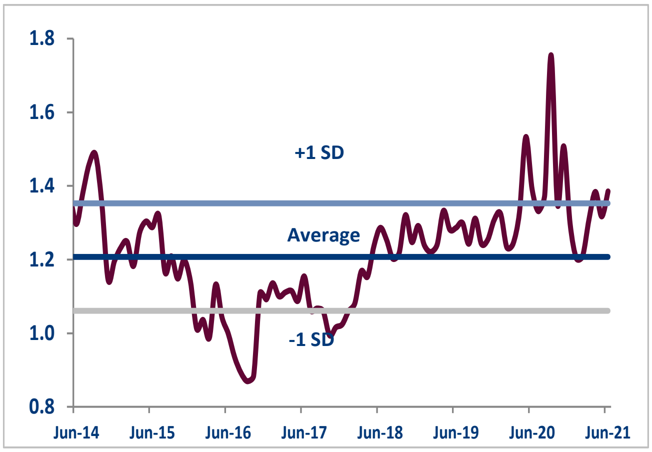
Based on our relative PE analysis of MENA markets versus Emerging Markets, we believe that MENA markets offer selective. The market currently trade 1 standard deviation above the historical average relative PE of 1.08 vs MSCI EM. However, MENA offers higher dividend yield of 2.3% vs EM at 1.9%.

UAE is trading higher than the historical average relative PE of 0.93 vs MSCI EM. However, UAE's dividend yield is quite attractive at 3.2%. 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.

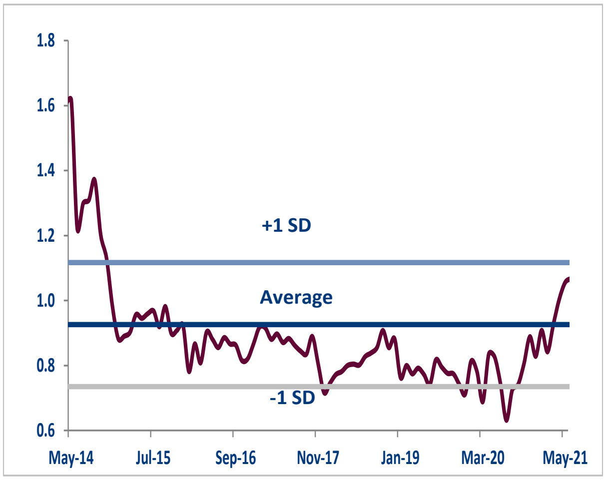
Relative PE (1yr Fwd.): MENA vs MSCI EM



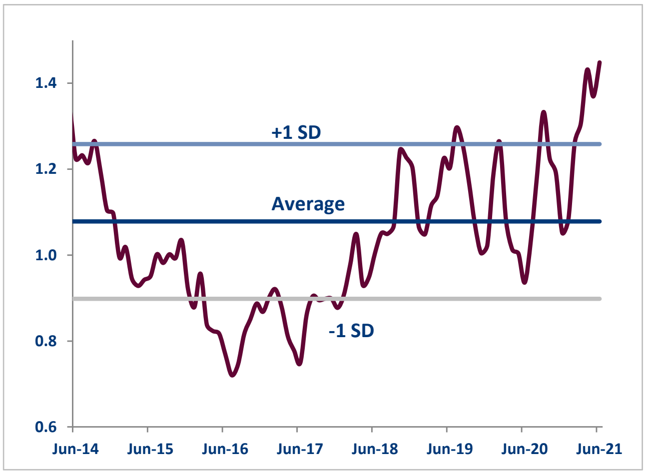
Relative PE (1yr Fwd.): Saudi vs MSCI EM



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



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



Source: Bloomberg, Daman Investments Asset Management

Emerging Markets Fixed Income

The **Bloomberg Barclays EM USD Aggregate Total Return Index** returned 0.7% during the month of June 2021. The **macro backdrop for EM sovereign credit has become more challenging over June**, with still **improving EM growth and higher commodity prices** providing a tailwind that has been partially offset by the early tilt of policy normalisation across central banks, as well as the rapid spread of the delta variant of Covid-19.

The spreads have markedly widened for the less than 5 years while the belly of the curve and longer end are flattish. **EM HY spreads have underperformed IG spreads in the recent volatile period.** We believe a more hawkish Fed and slowing global growth implies a more neutral allocation between EM IG and HY credit. **Comparing EM HY over IG spreads with EM growth suggests the market is currently priced in line with the recent slowdown in EM growth (which was partly driven by China) but points towards more upside for HY.**

As such, we think there is further room for a tactical retracement of EM HY spreads but see less room for a more sustained spread compression on an index level. Moreover, we think HY commodity exporters can offer more resilience in the event of increased market volatility given our constructive view on oil. The wide divergence in vaccination rates between developed and emerging markets poses a risk to EM economies as new Covid waves lead them to re-impose restrictions. And, **as for the impact of US yields on EM sovereign credit, it is likely to affect EM IG more directly than HY.**

In IG, spread curves are significantly steeper than prior to the Covid-19 shock. **The steep curves in EM IG replicate developed markets and Asia IG credit curves.** In EM HY, spread curves have also steepened, but with more dispersion within the asset class reflecting some left-tailed risk.

While spreads were slightly wider in the month of June, front-end spreads tightened while long-end spreads widened across IG and HY. As such, while **EM sovereign credit continues to be fairly priced, we prefer long-end of spread curves, especially in IG.** Within IG, we continue to point to selectively pick opportunities in **LATAM** such as **Peru**, **Colombia**, **Mexico** and to a lesser extent **Chile**, which reflects a higher risk premium following political developments in the region.

In HY, outside of countries with more significant idiosyncratic risks, the recent underperformance of **Egypt** and **Jordan** in **MENA** enunciate that credit was expensive on a risk-rating adjusted basis. With US 10Y Tsy at close to 3-month lows at 1.40%, we saw a slew of issuances with **Qatar Petroleum** raising USD 12.5 bn in the **largest US dollar fixed rate oil and gas offering, the largest corporate issuance in the MENA region, and the largest corporate Formosa tranche raised globally.** It was a multi-tranche bond offering; 5Y ,10Y and 20Y conventional tranches, and a dual-listed 30Y Formosa tranche- proceeds of which will be used to support the company's growth plans, particularly the North Field expansion projects over the coming few years. Furthermore, on the back of decade high phosphate prices, we participated in the primary offering of **OCP** which is a **Moroccan quasi-sovereign phosphate rock miner** and **phosphate fertilizer producer.**

Sri Lanka and **El Salvador** appear to be contained in aggregate and the overall risk premium of EM HY is close to its historical median. Outside of countries which are in IMF programmes, or have recently restructured their debt, we continue favour **Sri Lanka which has been our top pick since April on back of it securing bilateral financing** and **El Salvador**. June was a mixed bag for rating developments and mainly focused on outlook changes. On one hand, **Nicaragua** and **Tajikistan** outlooks were revised from negative to stable by Fitch and Moody's. On the other hand, Fitch revised **Ghana** outlook from stable to negative. Fitch's decision was driven by the fiscal deterioration caused by the Covid-19 pandemic, combined with delays in fiscal consolidation by the government, which it noted lacks a clear majority in parliament following the elections in December 2020. Already in July, Fitch downgraded **Colombia** from BBB- (with a negative outlook) to BB+ (with a stable outlook), joining S&P which also downgraded the sovereign from IG to HY at the end of May. This officially moves **Colombia** modal rating to HY, making it the second 'fallen angel' following the Covid-19 crisis (after **Morocco**).

In **Turkey**, growth and tightening in financial conditions seem to weigh on domestic demand and are restraining lending growth. However, the CBT pointed to the recovery in services and tourism, which were seen weak. We note that some EU countries like **Germany** and **France** are lifting restrictions gradually on **Turkey** and **Russia** is considering a similar move as the ban on flights might expire on June 21.

About inflation, the emphasis was put on the recent import price-based cost factors and together with demand conditions, supply constraints and high levels of inflation expectations, they contribute to inflation risks. In the forward guidance, the CBT mentioned that “the current tight monetary policy stance will be maintained decisively until the significant fall in the April Inflation Report’s forecast path is achieved”. The CBT plans to keep the policy rate "at a level above inflation" until then, though with the key rate at 19% and inflation at 16.6%Y currently, the CBT still has some room to cut.

Year-to-date EM sovereigns have issued ~USD 74 bn in USD bonds, of which ~ USD 41 bn has come from IG and ~ USD 33 bn has come from HY. This presents a 32% decline from the same period last year, driven by lower IG issuance.

In **Africa**, our opportunistic pivot last month to **Cameroon** and **Gabon** as beneficiaries of short-end of the curve liability management saw merit. **Cameroon** reached a Staff-Level Agreement in May 2021 with the IMF and the recent Eurobond refinancing of c.EUR 685 mn in Euros helped to ease concerns around its debt sustainability. Gabon also reached a new three-year **Staff-Level Agreement with IMF.**

In the Caribbean, we continue to favor **Guatemala** and **Bahamas** per the emerging trend of ‘near shoring’ of global supply chains and growth of these countries as ancillary economies as the US continues to rebound to normalcy. **As Bahamas received $ 100 mn in “Covid-19 Response and Recovery Development Policy Loan” which will support the country’s efforts to provide Covid-19 relied and lay the foundation for a resilient economic recovery.**

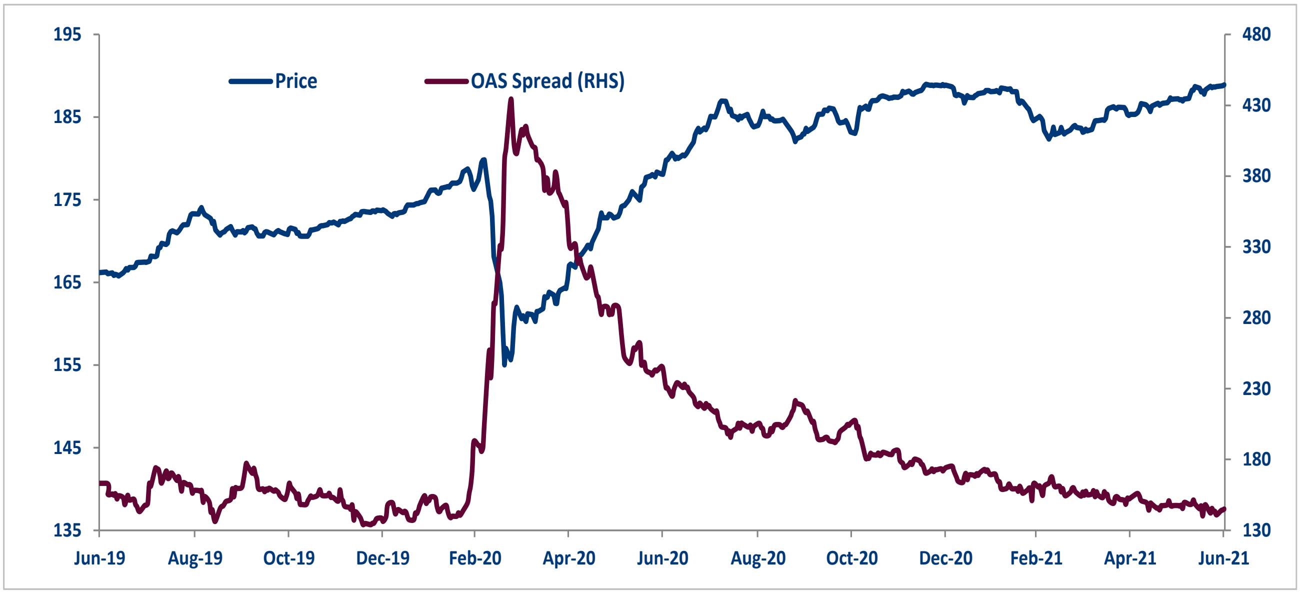
In summary, **the slowdown in global balance-sheet expansion will likely damp global flows**. We expect these flow trends to dominate in Q3 for EM Fixed Income: (1) Global balance-sheet expansion is slowing, but is countered by large unused cash levels on the sidelines; (2) stable USD rates volatility will likely boost risk appetite in EM fixed income; **(3) commodity recovery should support flows into EM hard currency (HC) and local currency (LCY) debt funds**; (4) EM HC debt investors to favour high-yield (HY) over investment-grade (IG) sovereigns.

Performance

	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	189	0.9%	0.0%
Citi MENA Broad Bond Index	174	1.0%	-0.1%
Dow Jones Sukuk	109	0.2%	-0.9%
Barclays Global Aggregate Index	541	-0.9%	-3.2%
Barclays Global High Yield Index	1,545	0.2%	2.1%
Barclays US Treasury Index	2,493	0.6%	-2.6%
Barclays US Corporate Index	3,516	1.6%	-1.3%
Barclays US Corporate High Yield index	2,423	1.3%	3.6%
JPM EM Global Bond Index	636	0.9%	-1.0%
Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index	1,280	0.7%	-0.6%
Bloomberg Barclays US Aggregate Bond Index	2,354	0.7%	-1.6%
Markit CDX Emerging Markets Index	97	0.3%	-0.2%
Barclays EM High yield	1,463	0.0%	0.8%
Barclays EM Corporate Index	319	0.4%	0.7%
10-year US Treasury yield* (%)	1.47	-13	55
30-year US Treasury yield* (%)	2.09	-20	44
US Treasury 2-10 Spread	121.74	-23	43
US Treasury 2-30 Spread	183.52	-30	31
10-year Germany Treasury yield* (%)	-0.21	-2	36
US Breakeven 10 Year*	2.34	-11	35
9-year Saudi Arabia Govt USD Bond yield* (%)	2.36	-2	29
10-year Abu Dhabi Govt USD Bond yield* (%)	2.08	-3	40
7-year Kuwait Govt USD Bond yield* (%)	1.33	-16	20
10-year Oman Govt USD Bond yield* (%)	5.21	-19	-49
10-year Bahrain Govt USD Bond yield* (%)	5.42	-14	55
9-year Qatar Govt USD Bond yield* (%)	2.32	-1	68
10-year Egypt Govt USD Bond yield* (%)	6.27	22	41
EIBOR 3M* (%)	0.35	-3	-16
QAIBOR 3M* (%)	1.00	-17	-12
Dubai 5 Year CDS* (bps)	38	-5	-8
Qatar 5 Year CDS* (bps)	39	-3	1

Source: Bloomberg, Daman Investments Asset Management

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)	75.13	8.4%	45.0%
Natural Gas (USD/mmbtu)	3.65	22.2%	43.8%
Gold (USD/Ounce)	1,770	-7.2%	-6.8%
Copper (USD/MT)	9,352	-8.8%	20.7%
Aluminium (USD/MT)	2,510	2.1%	27.2%
Nickel (USD/MT)	18,212	0.7%	10.0%
Urea Middle East (USD/MT)	450	15.4%	69.8%
Methanol China (USD/MT)	309	-1.6%	1.6%
SE Asia Polyethylene (USD/MT)	1,060	-5.4%	1.0%
Polypropylene (USD/MT)	1,220	-1.6%	-3.9%
US Dollar Index	92.44	2.9%	2.8%
MSCI EM Currency index	1,737.75	-1.0%	1.0%
JPM EM Currency index	57.25	-1.2%	-1.2%
EGP/USD	0.06	0.0%	0.3%
TRY/USD	0.115	-2.5%	-14.7%
PKR/USD	0.633	-2.4%	1.5%
ILS/USD	0.307	-0.4%	-1.4%
EUR/USD	1.19	-3.0%	-2.9%
GBP/USD	1.38	-2.7%	1.2%
USD/JPY	111.11	1.4%	7.6%

Source: Bloomberg, Daman Investments Asset Management

Performance of our Funds

Concerto IS Daman MENA UCITS Fund (DAMENAI LX EQUITY)

The aim of this strategy is to achieve medium to long-term capital appreciation by investing primarily in securities of issuers listed in the MENAPT Region or investing in securities of issuers listed outside of the MENAPT Region but deriving most of their revenues from the MENAPT Region.

	2021	Inception (30 Jul 2020) (Class I)
Total Return*	13.9%	24.4%
Annualized Return	29.6%	26.9%
Annualized Volatility	5.6%	6.0%
Sharpe Ratio	5.0	4.3

** NAV as of 24th June 2021*

The fund returned 0.9% during the month. In term of asset class, equities were the key contributor to the returns adding 0.8%, while fixed income added 0.1% on lower US treasury yields. Geographically, Saudi Arabia was the key contributor to the fund return, followed by Kuwait and Egypt.

We booked profits in Ma'aden and IQCD due to the sharp rally witnessed in those names. We continue to favor well provisioned banks in the region as we foresee a reduction in cost of risk and an increase in loan growth. We also like real estate names which should benefit directly from a return to normalcy

Daman Balanced High Income Fund

The aim of this fund is to generate income along with achieving medium to long-term capital appreciation, by investing principally in securities of issuers located in, or deriving at least 50% of their revenue from the MENA region, South Asia and Turkey. Portfolio diversification is further achieved by adding high yield fixed income securities where market is overpricing systematic and/or idiosyncratic risks.

	2021	Inception (May 2021)
Total Return	1.0%	1.0%

*** NAV as of 30th June 2021*

The fund returned 1.2% during the month. In term of asset class, equities were the key contributor to the returns adding 0.9%, while fixed income added 0.3%. Geographically, Saudi Arabia was the key contributor to the fund return, followed by UAE and Kuwait.

We added well-capitalized banks and other regional telecom operators to our fund which have strong cash flow visibility.

Brooge Petroleum was the largest contributor at 15 bps. Our allocation to the primary offering to Pakistan's first quasi-sovereign green bond showed favourable returns at 10 bps while Emirates NBD Perps and DAMAC 22 papers added 10 bps and 6 bps respectively.

Daman Islamic Enhanced Income Fund (2024)

The Daman Islamic Enhanced Income Fund seeks to generate an attractive risk-adjusted total return through a Sharia Compliant Salam mechanism linked to a portfolio of fixed income securities. Coupons may be distributed or accumulated monthly with maturity in December 2024.

	2021	Inception (Nov 2020)
Total Return**	5.7%	10.3%
Dividends Paid**	3.7%	4.9%
Rating	BB-	
Annualized Return	-	15.1%
Annualized Volatility	-	3.9%
Sharpe Ratio	-	3.1

*** Indicative of 30th June 2021*

The fund returned 25 basis points over June 2021 where the largest contribution was from income return versus price return. Given the fixed maturity setup of this fund (maturity 2024), our positioning on short dated spread instruments continues to capture most of the market performance.

The main contributor to this performance UAE with DAE Sukuk and DAMAC Sukuk adding 5 and 2 basis points respectively. Additionally, high beta positions in Turkey sovereign credit; contributed 6 basis points. The laggards were Egypt and Bahrain where spreads widened month-on-month on the back of idiosyncrasies. Our short duration positioning explains 98% of the total return.

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.

Address: Daman Investments PSC, Suite 600, P.O. Box 9436 Dubai, UAE
Tel: (+971 4) 332 4140
Fax: (+971 4) 332 6465
Email: amc@daman.ae
Website: https://www.daman.ae/