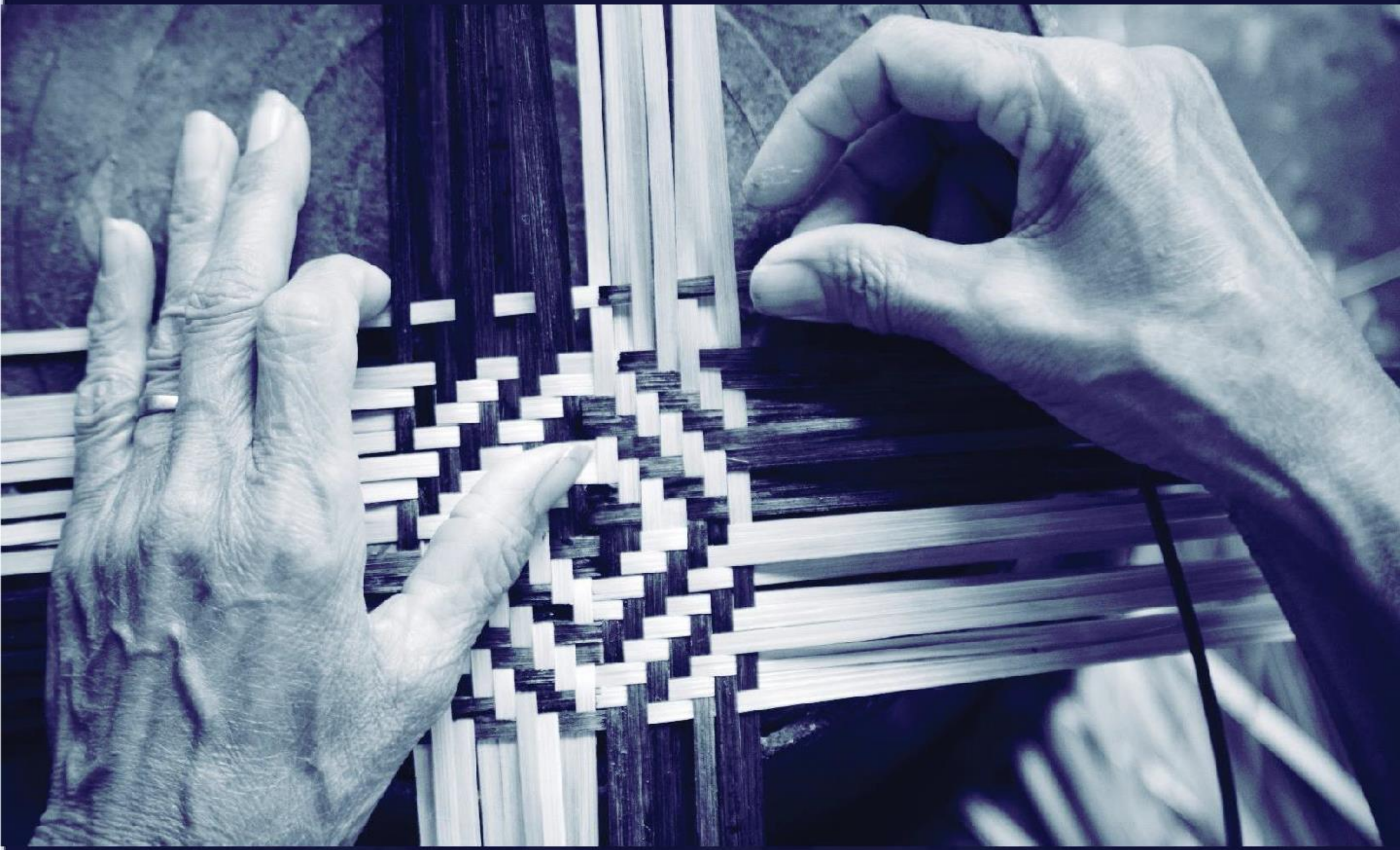
January 2022

Global and MENA Monthly Review

ضمان للإستثمار
DAMAN INVESTMENTS



Highlights of the Month

- Global equity markets came under selling pressure on expectations of tightening monetary conditions in US
- EM outperformed DM with MSCI EM Index dropping 1.9% compared to MSCI World Index falling 5.3%
- Value outperformed Growth as MSCI All Country World Growth Index plummeted 8.6%
- MENA equities started the year strongly with the S&P Pan Arab Composite Index rising 6.8%
- In EM fixed income universe, Bloomberg Barclays EM USD Aggregate TRI returned -2.6%
- Asia Pacific was the main detractor mainly due to China and its regulatory and real estate issues
- Brent oil price surged 17.3% on supply concerns and increased geopolitical tensions
- We remain overweight equities, underweight fixed income and overweight cash on expectation of increased volatility

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Global Equities

Global Equities: Global equity markets came under selling pressure on expectations of tightening monetary conditions in US and escalating geopolitical tensions in Eastern Europe. 10-year US treasury nominal and real yields spiked 27 and 39bps, respectively. **MSCI All Country World Index plunged 5.0%.** Value was a much better place to hide with **MSCI All Country World Value Index declining 1.3%, while MSCI All Country World Growth Index plummeting 8.6%**. Fed Chairman Jerome Powell in his post FOMC meeting press conference prioritized bringing down inflation as a key agenda for the Fed with the unemployment goal being met and economy being strong. He also signaled towards the first interest rate hike in the upcoming March meeting.

The US treasury yield curve witnessed a bear flattening with 10-2 and 30-2 spreads contracting 18 and 24bps. **The market as of January end priced in almost five rate hikes in 2022** based on fed fund future rates. Emerging markets (EM) outperformed developed markets (DM) with **MSCI EM Index falling 1.9% while MSCI World Index fell 5.3%**. **The US Nasdaq Index plunged 15.7% from its December closing levels before recovering and closing the month 9% lower**. Midcap and small cap tech names, especially the names trading with free cash flows expected in the long-term, came under a significant pressure. **S&P 500 Index closed the month down 5.3%**. VIX, a measure of S&P500 volatility, spiked to 39 in January from levels of 17 at the end of December 2021.

Macroeconomic data represented a mixed picture of the US economy. US CPI rose to 7% YoY in December, the fastest pace since 1982 but was in-line with street expectations. Core CPI was up 5.5% YoY with inflation broad based. Wages increased more than expected, rising 4.7% YoY as businesses found it hard to source labor. Nonfarm payrolls rose by 199,000 in December, far fewer than the estimate of 422,000 due to a massive surge in covid cases. **Unemployment rate was at 3.9% and labor force participation rate improved slightly to 61.9% from 61.8%** in the previous month. With unemployment rate being closed to pre-pandemic levels, strong wage growth and 10.8mn job openings, the labor market appears to be in a good shape. December retail sales contracted 1.9% MoM and January IHS Markit Flash Services PMI dropped to 51.2 from 57.6 in December on mainly omicron impact.

European equities also fell, however, outperformed US with **Stoxx 600 Index falling only 1.9%,** due to the less weight of technology and more cyclical nature of the Index. At the December meeting, ECB signaled that interest rates are unlikely to rise in 2022. However, with inflation rising to 5.1% YoY in January, **Christine Lagarde in post ECB meeting press conference did not rule out a rate hike in 2022** and opened door to accelerating asset purchase. January Eurozone IHS Markit Flash Composite PMI fell to 52.3 from 53.3 in December. Manufacturing PMI rose to 58.7 from 58 and Services PMI fell to 51.1 from 53.1. The impact of the Omicron wave on the service industry was less severe as the restrictions generally remained limited. Low hospitalization rates encouraged some countries to lift restrictions.

EM Equities: MSCI EM Index fell 1.9%. EM markets fell on geopolitical tensions, Omicron's potential disruption to economic recovery and concerns linked to high inflation and the Fed tightening monetary policy. **Amongst regions, LATAM outperformed (+7.3%), followed by EMEA (2.4%), while Asia underperformed (-3.5%)**. Brazil (+12.9%), Chile (+12.5%), Peru (+11.8%) and Colombia (+10.6%) outperformed on elevated commodity prices of base metals and energy.

Major Indices Performance

	Value	MTD Return	YTD Return	PE (x) 1Yr Fwd	PB (x) 1Yr Fwd	Div. Yield 1Yr Fwd
Saudi Arabia- Tadawul	12,272	8.8%	8.8%	19.7	2.7	2.5%
Dubai - DFMGI	3,203	0.2%	0.2%	11.1	1.1	3.8%
Abu Dhabi - ADSMI	8,704	2.5%	2.5%	17.8	2.3	2.8%
Qatar - DSM	12,498	7.5%	7.5%	13.4	1.9	3.7%
Kuwait - All Share	7,350	4.4%	4.4%	16.2	1.7	2.1%
Oman* - MSM30	4,116	-0.3%	-0.3%	11.0	0.8	3.8%
Bahrain - BHSEASI	1,810	0.7%	0.7%	10.2	0.9	3.4%
Egypt - EGX30	11,490	-3.8%	-3.8%	6.7	1.2	4.6%
Morocco - MOSENEW	13,883	3.9%	3.9%	21.6	3.2	3.1%
Lebanon* - BLOM	978	-5.0%	-5.0%	-	0.7	0.0%
S&P Pan Arab Composite	183	6.8%	6.8%	16.6	2.2	3.2%
Israel - TA35	1,917	-3.1%	-3.1%	10.7	1.7	1.8%
Turkey - XU100	2,003	7.8%	7.8%	4.8	1.0	5.4%
Pakistan - KSE100	45,375	1.7%	1.7%	4.9	1.0	7.8%
S&P 500	4,516	-5.3%	-5.3%	20.2	4.1	1.5%
STOXX 600	469	-3.9%	-3.9%	14.9	1.9	3.1%
MSCI EM	1,208	-1.9%	-1.9%	12.3	1.7	3.1%
MSCI All Country World	717	-5.0%	-5.0%	17.3	2.7	2.1%
MSCI World	3,059	-5.3%	-5.3%	18.2	2.9	1.9%

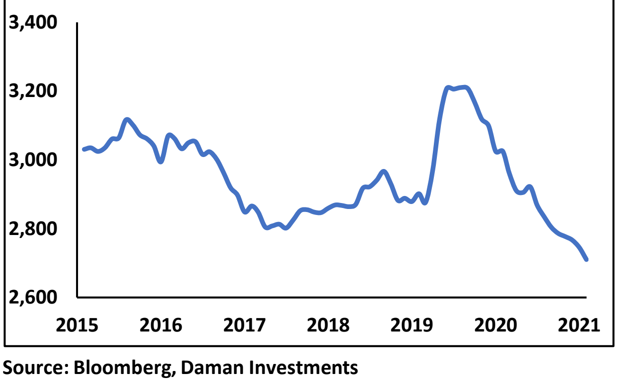
Source: Bloomberg, Daman Investments Asset Management

*Note: *Oman and Lebanon's PE, PB ratios and dividend yield are trailing*

Monetary policy tightening ahead of a more hawkish fed was also a tailwind for LATAM**. Russia (-9.1%), Korea (-9.0%) and China (-2.9%)** were the worst performing markets. Russia corrected strongly on heighted geopolitical tensions with Ukraine while Korea fell on a correction in the global growth markets. Chinese market came under pressure on expected monetary tightening by Fed and ongoing economic slowdown tied to debt issues and declining property prices.

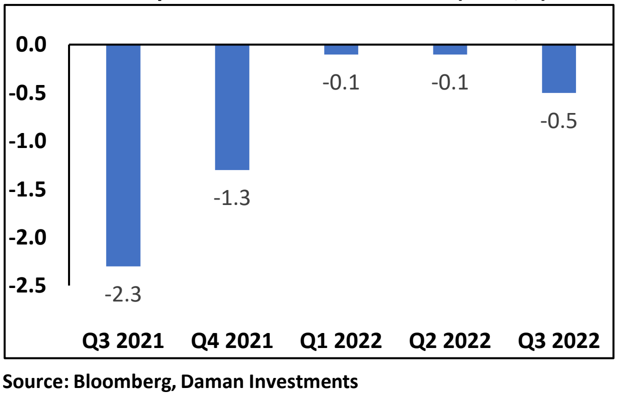
Commodities: Oil: Brent oil surged 17.3% MoM, touching $91.2/bbl, the highest in nearly eight years, driven by geopolitical tensions between Russia and Ukraine and tight supplies, with inventory drawdowns further lowering inventories. Demand remained strong, with the hit from Omicron (-0.5mb/d) being more than offset from a gas-to-oil switch (at least +0.5mb/d). Incremental supply has been limited, and a lot less than what was approved by OPEC+, as members continue to run out of spare capacity and struggle to revive production after years of cuts and under investment. **OECD oil inventories are roughly 200mn bbl below their 2015-19 average**. Extreme winter weather in the US has not helped, further pushing prices up, as concerns grow that the cold weather could hit production in Texas. With the oil market fixated over production, we could see oil prices heading towards $100/bbl.

OECD inventory reaching pre-Covid levels (mn barrels)



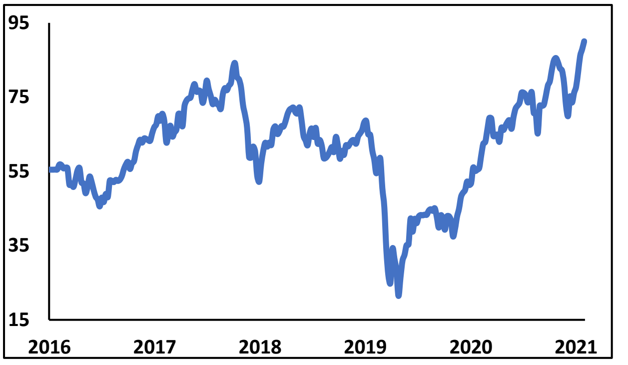
Source: Bloomberg, Daman Investments

Crude oil is expected to remain in deficit (mnb/d)



Source: Bloomberg, Daman Investments

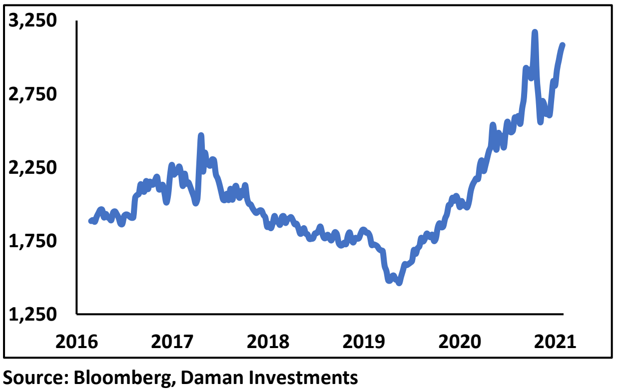
Brent crude oil prices continue to remain strong ($/bbl)



Source: Bloomberg, Daman Investments

Metals: Base metal prices witnessed a mixed start to the year. Copper fell 1.7% while aluminum rose 8.7%. **Copper in the near-term may face headwinds from a slowdown in the Chinese economy and Chinese property sector,** however, in the mid-term, it should benefit from global infrastructure spending and shift towards green energy. Aluminum on the other hand rallied, as tight supply due to environmental and energy concerns along with a rebound in demand, pushed prices higher. We continue to remain constructive on Aluminum with an average price of $2,900/MT in 2022 (+17% vs 2021 average. **Precious metals:** Gold prices fell 1.8%. Tightening monetary supply, rising yields and dollar should continue to act as a headwind for gold.

Increasing demand is pushing aluminum prices higher

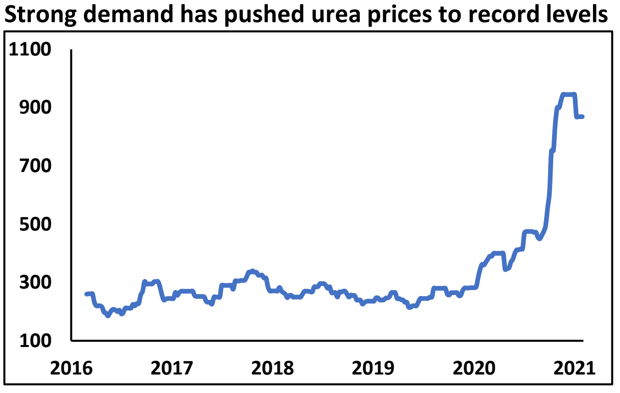


Source: Bloomberg, Daman Investments

Petchems: Olefins prices rose on higher oil and naphtha prices. **LDPE and Polypropylene prices rose 4.2% and 7.6%,** respectively. We expect LDPE prices to trend higher 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 prices rose 18.8% during the month to reach $367/MT.** In General, given a sharp spike in oil price, we expect the petrochemicals to play a catchup.

Fertilizers: Middle East **urea prices fell 9.4%** due to a seasonal weakening demand but heightened political tensions (Russia being a key urea exporter) and news of a potential tender from India helped prices find a floor. We are positive urea, given the global supply disruptions due to China curtailing production and exports (curbs on electricity usage, desire to reduce carbon emissions), as well as the closure of various factories in Europe (high natural gas prices squeezing margins). Demand should also remain healthy due to low global crop inventories and recovering industrial demand. We expect Middle East urea prices to average $550/MT in 2022 (+42% higher than 2011-2020 average) .

Strong demand has pushed urea prices to record levels



Source: Bloomberg, Daman Investments

Currencies: The dollar Index (DXY) gained 0.9% during the month of January on the hawkish outlook from Fed. **JP Morgan EM Currency Index rose 1.5%. The Chilean Peso (+6.4%)** and the **Brazilian Real (+5.0%)** were the best performing currencies on a strong commodity rebound. The Russian Ruble (-2.9%) and the Korean Won (-1.4%) were the worst performing currencies. Ruble got impacted from geopolitical tensions. With the Fed looking to increase its pace of tapering, expected rise in US yields expected to cause potential outflows from the EMs and higher commodity inflation putting pressure on EM importers current accounts, we expect the USD to remain strong. However, EMs which are ahead of curve in fighting inflation and have better macroeconomic growth in 2022 would fare better.

Global Asset Allocation and Outlook:

We believe that the market has got ahead of itself by pricing in 5 rate hikes this year. We agree with the fact that taming high inflation remains a key priority of the Fed given strong economy and labor market. However, too sharp a spike in rates could cripple consumer spending and increase interest rate burden on highly indebted companies, especially in leisure, travel and tourism sectors. This could hurt economic growth, create stagflationary concerns and invert the yield curve. We expect the Fed to hike rate 4 times this year and to take a measured approach in countering inflation as they would not like the yield curve to invert. We expect inflation to start declining from 2H 2022 on shift in consumption from goods to services as economies reopen further, peak fiscal boost fades, supply chain issues beginning to normalize and high base effect kicks in.

	Underweight	Neutral	Overweight
By Asset class:			
Equities			
Fixed Income			
Cash			
Equities - by region:			
US			
Japan			
Euro Area			
EM Asia			
EM Europe			
EM MENA			
EM LatAm			
Fixed Income - by region:			
Asia Pacific			
Africa & Middle East			
South & Central America			
Eastern Europe			
Central Asia			
Fixed Income - Rates:			
US Treasuries			
German Bunds			
Fixed Income - Credit:			
Global Investment Grade			
Global High Yield			
EM Sov - Local Currency			
EM Sov - Hard Currency			

We continue to remain overweight on global equities on a continued rebound in global economy supporting earnings growth and a constant search by investors for attractive real returns. We are underweight fixed income in the short-term on our expectations of rising real yields. However, we expect equity markets volatility to remain high as near-term inflation would remain high. Hence, we **are over-weight cash** as we keep some dry powder to take benefit of our expectation of high near-term volatility in the markets. Given our expectations of limited impact from Omicron and above trend global economic growth in 2022, **we recommend a value and cyclical tilt and are overweight financials, energy and industrials**.

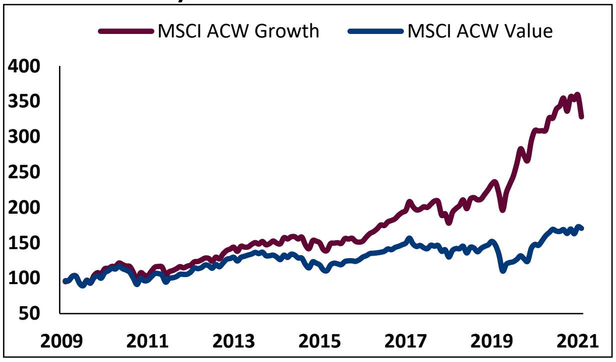
In the near-term, given the supply chain issues, high inflation and fed rate hikes, it is important to be more discerning as market volatility may remain elevated. Hence, we recommend a well-researched **bottom up-stock picking approach** to identify companies which can navigate supply chain issues and pass on the higher prices to the consumer. Also, a **well-diversified barbell approach** by adding exposure to quality (strong balance sheet and cash flows) and high dividend paying firms is needed to steer through any setbacks from spike in covid cases or further rise in inflation on higher energy and food prices.

We would play the US market through overweighting cyclicals and top big tech secular growth names and underweighting long duration tech names. Long duration tech names could see substantial downside due to their elevated valuations in a backdrop of accelerated fed taper. We maintain an overweight rating on **Europe** given its cyclical tilt, another year of strong economic growth and steep valuation discount vs US (1 year fwd. PE of 14.9x vs 20.2x). We maintain our neutral stance on EMs as EM central banks remain under pressure to respond to rising US yields, expected rate hikes in US, higher inflation and increased downward pressure on currencies. Within EM we like an exposure to countries which have the firepower to steer through such headwinds tied to their strong foreign reserves, low external debt and manage fiscal and current account situations.

We are **overweight Asia and MENA** and underweight LatAm and Europe. Within Asia we prefer **China, South Korea, Indonesia, Malaysia and Thailand.** We see an attractive entry point in Chinese equities after a 22% decline in MSCI China Index in 2021. We expect China to loosen policy to offset the drag on economic growth from downturn in property sector (contributes c.25% to the country's GDP). However, any monetary and fiscal stimulus will be targeted to control inflation, leverage and improve productivity. As China continues on the path of decarbonization, deleveraging and improving social equality there will be certain sectors which will face regulatory headwinds. Another risk to watch will be any further delisting of top-Chinese names from US. However, we believe at the broader-market level the valuations are quite attractive with 1 year fwd. PE of 12x vs 20.2x for S&P 500 and the market seems to has priced in regulatory risks and headwinds related to the real estate sector and economic slowdown. Other Asian markets such as **South Korea, Indonesia, Malaysia and Thailand** would benefit from an acceleration in economic reopening on higher vaccination rates and lower-case count. We like an exposure to **Saudi, UAE, Qatar and Egypt in MENA, and Mexico in LATAM.**

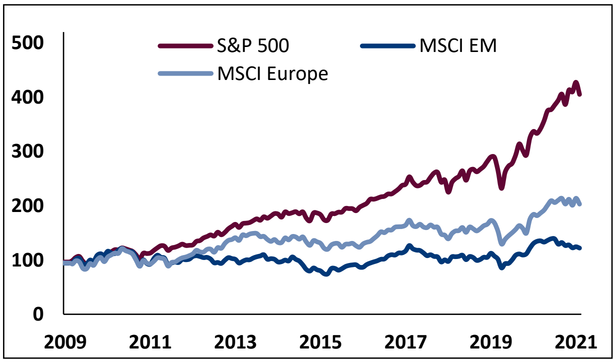
EM Fixed Income: The recent volatility in the treasuries provides an opportunity for us to tactically invest in securities, which have already bottomed out. Given the possibility of further widening in spreads, we would opt for sovereigns with strong foreign reserves and investment grade (BBB- to BBB+) corporates with strong cash flows. Further analysis & outlook of fixed income is mentioned starting **page 10**.

MSCI All Country World Value vs Growth



Source: Bloomberg, Daman Investments

Europe and EM underperformance vs US



Source: Bloomberg, Daman Investments

MENA Equities: MENA equity markets mostly rallied during the first month of 2022 as surging Brent prices (up 17% MoM) boosted investor sentiment, overshadowing concerns over the fast-spreading omicron variant. **Saudi Arabia's Tadawul All Share Index outperformed, rising by 8.8%**, followed by the **Qatar's QE 20 Index and the Kuwait All Share Index, which rose by 7.5% and 4.4%**, respectively. Abu Dhabi's FADGI gained 2.5% while the rest of the GCC markets underperformed. Bahrain's All Share Index gained 0.7%, Dubai's DFMGI was flat (up 0.2%) while Oman's MSM 30 Index notched a marginal decline of 0.3%.

Abu Dhabi's gains were fueled by a 4.4% gain in Etisalat, despite the authorities announcing that the FY 2022-24 federal royalty rates on UAE revenues would remain unchanged at 15%, while the royalty rate on profits would also stay at 30%. UAE's top four banks reported a good set of full year results, with earnings beat mainly driven by lower provisions and higher non-interest income. Net interest margins (NIMs) trended downwards across the board on lower interest rates. Banks also raised their dividend payouts, except for FAB, which cut its dividend to fuel future growth. FAB outperformed in terms of loan growth, with their book growing by 6% YoY, driven by an increase in lending to the real estate sector, government, and retail clients. ADCB reported a 2% YoY loan growth while the lending books of ENBD and DIB contracted due to large early repayments. ENBD's earnings were slightly below consensus due to higher provisions taken for their Turkish subsidiary Denizbank.

Despite ENBD being the most positively impacted from rising interest rates, we continue to avoid the name due to its Turkish exposure and potential deletion from the FTSE EM index, which could lead to outflows of USD 311mn. We see revenue for the banking sector generally improving in 2022, on the back of improving economic outlook, high oil prices, strong deal pipeline and rising interest rates. UAE's Central Bank has projected that the economy should grow by 4.2% this year, with oil GDP growing 5.0% and non-oil GDP growing by 3.9%.

ADQ announced plans to raise nearly USD 1.1bn, by selling 1.25bn shares of Abu Dhabi Ports through a private placement. AD Ports took ownership of a 10% stake in National Marine Dredging Company and a 22.3% stake in Aramex earlier this year, for no consideration, through transfers initiated by ADQ's wholly owned subsidiaries. Towards the end of the month, the **UAE's Ministry of Finance announced that a 9% federal corporate tax would be applied on business profits effective for financial years starting on or after June 1st, 2023.** The tax would apply on business profits over USD 100k while personal income from employment, real estate and other investments would remain exempt.

While we expect earnings of companies to be negative impacted by this, we see the move as positive for government coffers as it would further diversify their revenue base. It is worth noting that Saudi Arabia currently imposes a 2.5% Zakat on the asset base for Saudis and a 20% tax rate on foreigners. Qatar and Kuwait enforce taxes on foreigners, Oman taxes all businesses while Bahrain does not have a corporate income tax. The 9% tax rate for the UAE is substantially below the 20.7% average for the EU and the 23.6% global average. UAE's January PMI dropped slightly from 55.6 in December to 54.1 in January, its slowest pace since August 2021. Momentum was hampered by rising Covid cases slowing demand and inflation stifling consumer activity and employment.

Saudi's Tadawul had a phenomenal start to the year, crossing the 12,000 points market and ending the month at the highest level in more than 15 years. There were broad based gains across all sectors, with the heavyweight banking sector gaining 12.2%. Riyad Bank and Saudi British Bank, two names that we like due to their high capitalization, strong corporate exposure, and CASA to benefit from rate hikes, rallied 25.5% and 21.5%, respectively. **Saudi Automotive Services (SASCO) also rallied 27.0% after it acquired 80% of NAFT Services for SAR 1.1bn**, which increased its market share in Saudi gas stations by 2.0% and made it the second largest player after Aldrees. The market continues to be quite fragmented, and we continue to hold Aldrees – the largest player by market share. Aramco recently acquired Sahel (the new Tas'helat), while ADNOC Distribution is also looking to grow in the Saudi market, which shows the attractiveness of the market. Aldrees recently posted a strong set of results, on higher-than-expected margins, good recovery in the transportation segment, and higher throughput per station. The company continues to deliver on its expansion plans, having opened 96 new stations during 2021.

Saudi's PIF announced plans to list its digital security firm Elm and raise as much as USD 820mn. The IPO was priced at the high end of the range for SAR 128 per share, with the institutional books covered 69.5x. We like the company due to its strong brand recognition, in house development capabilities and breadth of products which could be offered to different industries. We believe the company should trade at 20% premium to STC Solutions on a 1-year Fed PE basis, given its strong moat and expertise in product building. The company at the IPO price is valued at the current valuation level of STC solutions, hence we see a 20% upside from the IPO price.

Within the consumer discretionary sector, we saw eXtra and Jair miss estimates for their top line due to supply chain disruptions. Consumer staples also missed consensus earnings estimates due to higher commodity prices (notably corn and soya), high international freight and packaging expenses and the inability to pass on inflation to consumers. **We added Saudi Industrial Investment Group (SIIG) to our portfolios due to its attractive valuation and potential synergies post its merger completion with National Petrochemical Company (Petrochem).** We also see propane prices coming down post winter, which should help in reducing feedstock costs pressure. We also added Seera Group as we see the name as a good recovery play, particularly given improving consumer travel and strong local mobility.

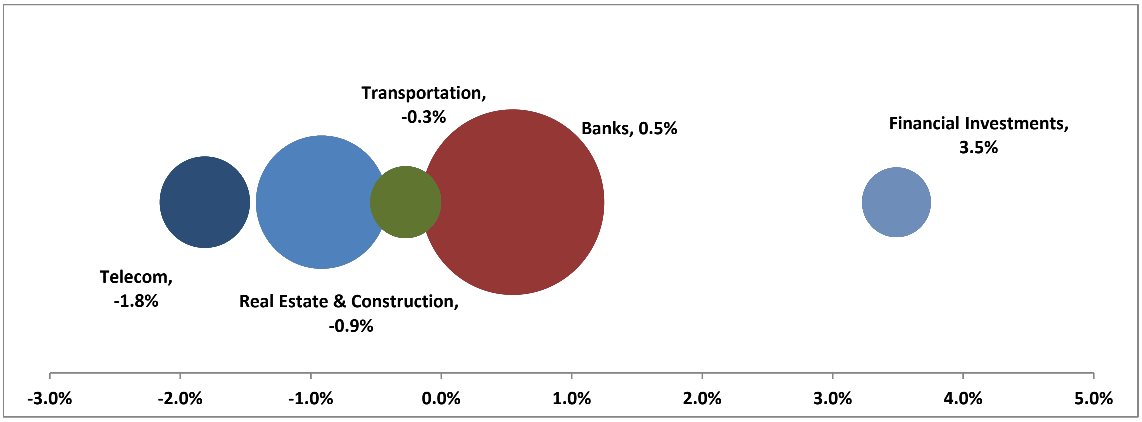
In Qatar, Masraf Al Rayan missed earnings estimates due to large cleanup provisions taken after its merger with Al Khaliji. **We added Qatar Islamic Bank to our portfolios given the strong set of index flows (approximately 70 days) we expect due to the expected increase in its FOL to 100%.** The bank posted a strong set of Q4 results due to lower impairments and proposed a dividend of QAR 0.58, yielding around 3.0%. We reinitiated a position in QAMCO due to the solid spreads it currently enjoys between alumina and aluminum and the robust recovery seen in ammonia volumes. Global demand remains strong for urea and the looming energy crunch in Europe means QAMCO should stand to benefit further due to its low cash costs versus its peers.

MENA Recommendations: Given elevated oil prices and positive PMI data, we continue to like value and cyclical names such as banks (ADCB, DIB, SNB, SABB, RIYAD, MARK, QNB, QIBK and NBK), specialty retailers (eXtra and Jarir) and industrials (QAMCO, IQCD). Given higher Covid-19 booster shot uptake, we continue to like reopening names (Emaar, Mabanee and Seera). On the high dividend yield side, we like names within the communication services sector (Yahsat), regional top banks with high capital adequacy, oil and gas drillers and retailers (Adnoc Drilling and Adnoc Distribution), insurance providers (ADNIC) and construction supply players (RAK Ceramics, Bawan and Yanbu Cement).

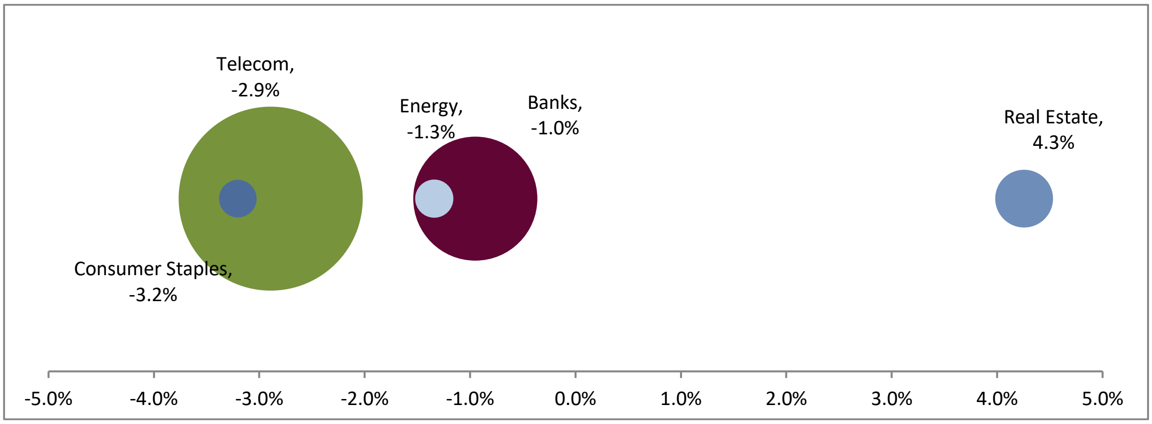
We continue to avoid Turkey due their unconventional monetary policy of lowering interest rates when inflation remains high. In Egypt, we continue to closely watch the PMI data to look for any sustainable signs of expansion. We like specific growth sectors such as NBFS players (EFG Hermes), commercial services providers (eFinance), urea producers (Abu Qir) and pharmaceuticals (Rameda).

Sectors Performance of Key MENA Indices (MoM Change)

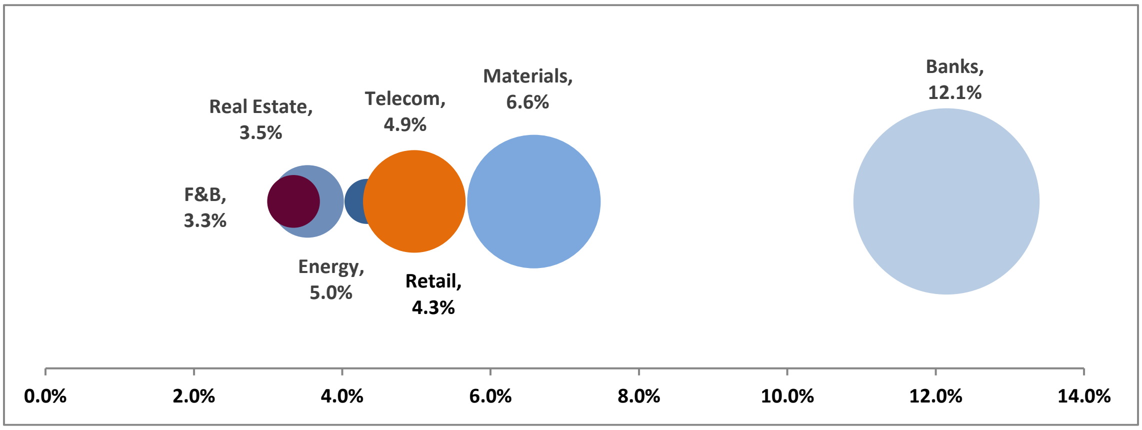
Dubai



Abu Dhabi



Saudi Arabia



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

Morocco	21.6
Saudi Arabia	19.7
Abu Dhabi	17.8
Kuwait	16.2
Qatar	13.4
Dubai	11.1
Oman	11.0
Bahrain	10.2
Egypt	6.7

Dividend 1Yr Fwd

Egypt	4.6%
Dubai	3.8%
Qatar	3.8%
Morocco	3.1%
Abu Dhabi	2.8%
Saudi Arabia	2.5%
Kuwait	2.1%

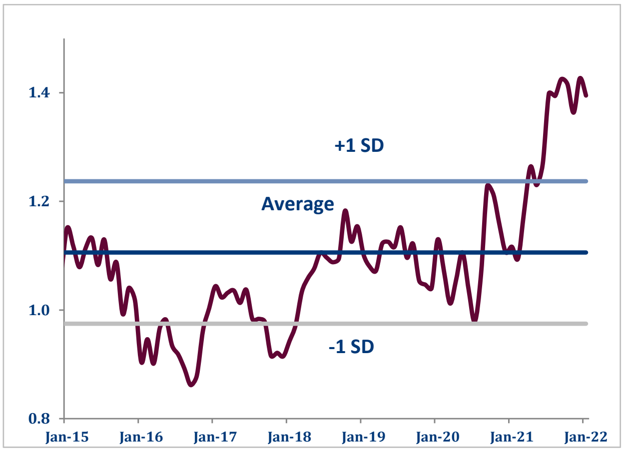
Source: Bloomberg, Daman Investments Asset Management

MENA Relative Valuations Versus Emerging Markets

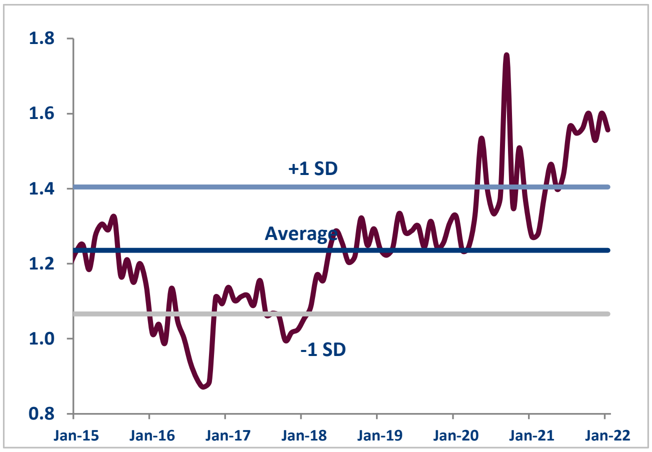
Based on our relative PE analysis of MENA markets versus Emerging Markets, we believe that MENA markets offer selective value. The market currently trade more than 1 standard deviation above the historical average relative PE of 1.11 vs MSCI EM as it offers higher earnings growth. MENA offers higher 1 year forward dividend yield of 3.1% which is higher than EM dividend yield of 3.1%.

UAE is trading at 1 standard deviation above the historical average relative PE of 0.96 vs MSCI EM. However, UAE's 1 year forward dividend yield is quite attractive at 3.3%. 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.

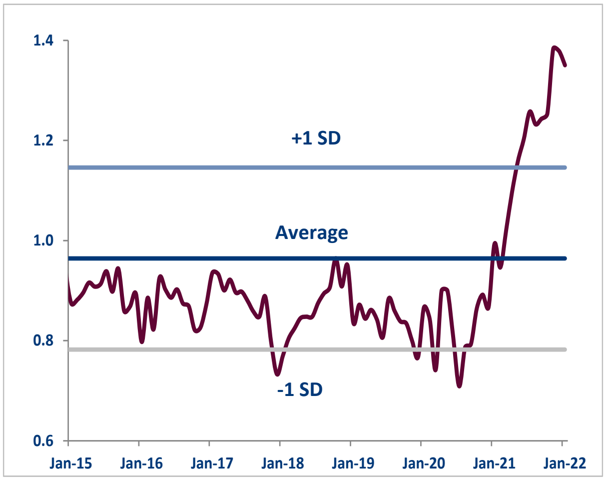
Relative PE (1yr Fwd.): MENA vs MSCI EM



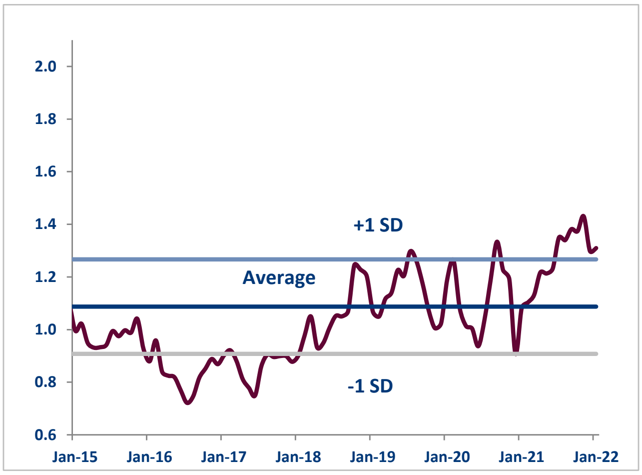
Relative PE (1yr Fwd.): Saudi vs MSCI EM



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

EM credit has been flat during the month even though Omicron variant persisted, and global conditions seemed to be heading towards a risk off notion. During January 2022, the Emerging Market Aggregate Index tightened 16bps to 304bps. EM IG and HY curves, on aggregate, have reacted differently to the flattening of the UST 10s30s curve and heightened rates volatility with bear flattening in EM IG offset by the bull steepening in EM HY. CEMBI overall average flattened 3bps to 92bp, with bigger magnitude of the curve flattening. Overall, there could be some reversal in the 10s30s curves that flattened, as the 30-year pricing catches up to the widening in overall spreads.

The largest steepening over the month were led by **Turkey** (+24bp) and **Chile** (+20bp). The largest flattening over the month were led by **Russia** (-51bp), **Romania** (-33bp), Columbia (-25bp) and **Pakistan** (-23bp). Steepest curves are led by **Egypt** (206bp), **South Africa** (173bp), **Oman** (160bp), and **Jordan** (154bp). Meanwhile, flattest curves are led by Turkey (9bp) and Russia (21bp).

Central bank policy rate decisions are likely to continue to diverge as inflation environments and reaction functions differ. Unwinding of monetary accommodation by central banks has been the focus in the recent months and will also be in the limelight going forward. Banco Central do Brasil (BCB) remains ultra-hawkish on concerns over double-digit inflation and has flagged another 150bps rate hike in February, following a similar move in December. The central banks of both Mexico and Peru are likely to deliver 50bps of tightening on 10 February, taking policy rates to 6.0% and 3.5%, respectively. In Asia, the central banks of Indonesia and Thailand are likely to remain in wait-and-see mode.

Bank Indonesia is expected to keep the policy rate unchanged at 3.5% to anchor IDR stability and inflation expectations. **Bank of Thailand may also hold its policy** rate at 0.5% primarily to support the economy. **India's MPC is likely to initiate rate hikes later this year**, and the budget announcement is likely to balance fiscal consolidation (especially given efforts towards India's inclusion in major bond indices) against maintaining high enough spending to support the growth recovery. **Russia's central bank** is expected to hike the key rate by 75bps to 9.25%, on higher inflation expectations driven by both transitory and persistent factors.

Inflation in Latam proved to be higher than expected, while most of the inflationary pressure came from supply-side price shocks. Recent readings point to increased core inflation, despite slowing headline inflation in some countries. Considering wide-spread inflationary pressure, and persistently high inflation expectations, inflation is expected to stay above central bank targets at the end of 2022. Easing food and energy prices, tightening monetary policy, withdrawal of fiscal stimulus, and favorable base effects should help cool inflation in the region. In **Brazil**, **inflation is likely to stay elevated** amid possible Brazilian real (BRL) devaluation, wage indexation and high inflation expectations. In **Chile, Colombia, and Peru, inflationary pressure** is likely to ease as excess household liquidity accumulated during the pandemic declines. In Mexico, cooling US inflation and easing supply-chain bottlenecks should reduce imported cost pressures.

China's official manufacturing PMI edged down to 50.1 in January from 50.3 in December on softer demand and production activity. The services PMI declined to a five-month low of 50.3 on COVID resurgence and mobility restrictions. In addition, construction activity eased due to the weather and holiday impact. The **People's Bank of China (PBoC) has recently advocated front-loading monetary support** by tapping deeper into its policy toolkit. A cut in the reserve requirement ratio (RRR), in addition to a policy rate cut in Q2 is expected. The government appears determined to introduce policies that are conducive to growth and hold back those that undermine stability.

Based on 2022 growth targets already set at the local level in China, the national target to be set at 5.5%, with policies aligned to beat the target. **Credit conditions for the property sector seem to have bottomed out**, with real-estate loans jumping to 24% of total new loans in Q4 2021 from a trough of approximately 15% in Q3 2021. **China authorities have recently introduced a few policy measures**, including looser regulations on presales proceeds, facilitation of asset sales, and accelerated mortgage approvals. If such measures do not materialize soon then Chinese developers will have to undertake distressed exchanges or opt for full-blown restructuring in 2022.

In India the government projected a deficit of 6.9%, versus the initially budgeted 6.8%. The Indian rupee (INR) weakened slightly in response to the budget announcement. FY23 central government budget maintains credible assumptions, with a continued focus on growth. Capital expenditure is targeted at 2.5% of GDP for FY23, and revenue deficit is projected to narrow in FY23, but to remain wider than pre-COVID levels due to higher interest payments, the moving of off-budget

Emerging Markets Fixed Income

subsidy spending on budget, and other pandemic-related expenses. **Philippines Q4 2021 GDP growth came in at 7.7% y/y**, ahead of consensus expectations of 6.3% y/y. The economic recovery is expected to continue in 2022, supported by low base effects, economic reopening, supportive fiscal policy and accommodative monetary policy.

Egypt was included in the GBI-EM Global Diversified index on 31 January 2022, with an estimated 0.81% initial weight, which will be increased to 1.63% on 28 February. Fixed-income portfolio flows appear to have recovered moderately this year; the Central Bank of Egypt (CBE) has indicated that they amounted to USD 970mn through mid-January. Egypt's yield pick-up (5Y: 14.28%) could support offshore positioning, despite lower bond liquidity than in established EM.

Central Bank of Russia (CBR) is expected to be hiking rates by 75bps on in February, taking the key rate to 9.25%. The CBR hiked by 325bps in 2021 and kept open the prospect of a further key rate increase at its December meeting. 12-month inflation expectations rose 14.8% y/y in December from 13.5% in November: a five-year high. Headline inflation stayed at 8.4% y/y in December, despite the CBR's belief that inflation had peaked in November. CBR has warned that their contribution to higher inflation expectations requires longer and more significant monetary policy tightening to return inflation to its 4% target.

The EM local-currency (LCY) debt flow outlook remains challenging amid Russia-Ukraine tensions, and any meaningful resumption of flows into EM LCY debt funds is likely to be delayed. However, there has been an increased foreign buying of LCY debt in low-yielding Asia markets on an FX recovery. There maybe flow rotation away from Emerging Europe due to elevated geopolitical risk in the region, with Asia LCY debt being the main destination.

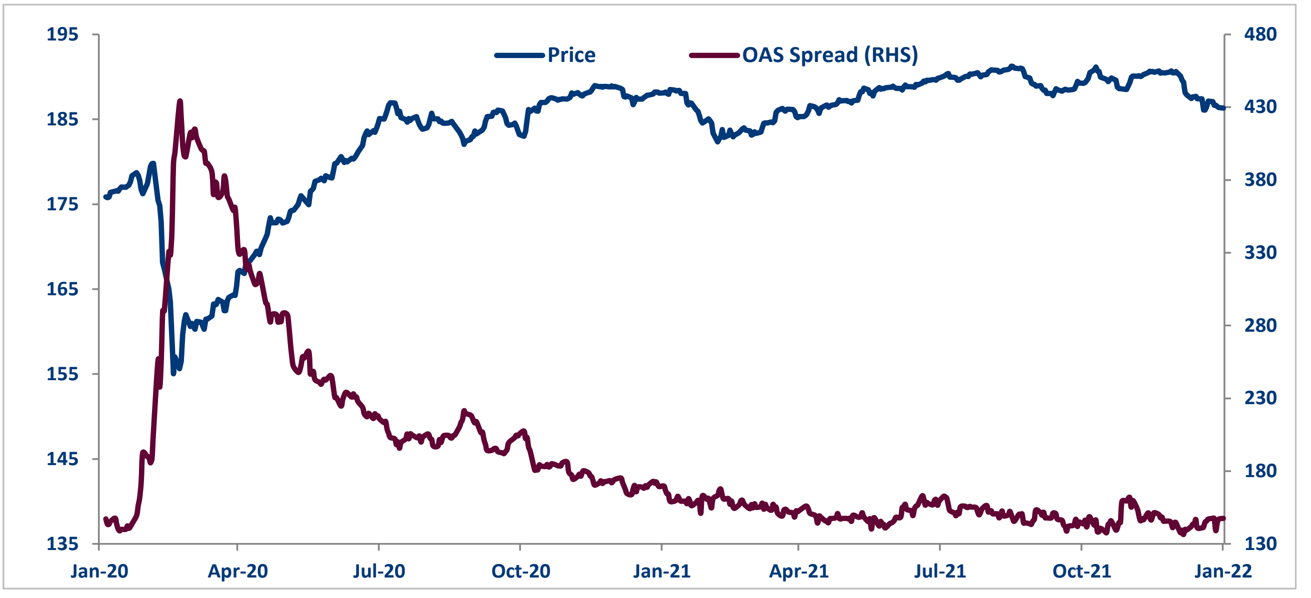
EM FX performance may drive near-term foreign buying of LCY debt amid volatile UST yields. Within EM, the most likely interest will be in THB, MYR and IDR debt in the near term amid flow rotation from Emerging Europe to Asia. Given the countries in Emerging Market have been proactive in raising rates, and the US yields are quite volatile, we expect selective emerging market securities to be attractive.

Performance

	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	186	-2.3%	-2.3%
FTSE MENA Broad Bond Index	171	-2.3%	-2.3%
Dow Jones Sukuk	106	-1.9%	-1.9%
Barclays Global Aggregate Index	522	-2.0%	-2.0%
Barclays Global High Yield Index	1,490	-2.5%	-2.5%
Barclays US Treasury Index	2,453	-1.9%	-1.9%
Barclays US Corporate Index	3,405	-3.4%	-3.4%
Barclays US Corporate High Yield index	2,394	-2.7%	-2.7%
JPM EM Global Bond Index	611	-3.0%	-3.0%
Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index	1,233	-2.63%	-2.6%
Bloomberg Barclays US Aggregate Bond Index	2,304	-2.2%	-2.2%
Markit CDX Emerging Markets Index	95	-1.0%	-1.0%
Barclays EM High yield	1,378	-2.0%	-2.0%
Barclays EM Corporate Index	300	-2.4%	-2.4%
10-year US Treasury yield* (%)	1.78	27	27
30-year US Treasury yield* (%)	2.11	20	20
US Treasury 2-10 Spread*	59.60	-18	-18
US Treasury 2-30 Spread*	92.69	-24	-24
10-year US Treasury Real yield* (%)	-0.71	39	39
10-year Germany Treasury yield* (%)	0.01	19	19
US Breakeven 10 Year*	2.49	-11	-11
9-year Saudi Arabia Govt USD Bond yield* (%)	2.66	39	39
10-year Abu Dhabi Govt USD Bond yield* (%)	2.33	33	33
7-year Kuwait Govt USD Bond yield* (%)	2.12	43	43
10-year Oman Govt USD Bond yield* (%)	5.30	36	36
10-year Bahrain Govt USD Bond yield* (%)	6.14	34	34
9-year Qatar Govt USD Bond yield* (%)	2.61	37	37
10-year Egypt Govt USD Bond yield* (%)	8.28	71	71
EIBOR 3M* (%)	0.45	8	8
QAIBOR 3M* (%)	1.15	3	3
Dubai 5 Year CDS* (bps)	39	1	1
Qatar 5 Year CDS* (bps)	51	7	7

Source: Bloomberg, Daman Investments Asset Management *Note: *In basis points*

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)	91.21	17.3%	17.3%
Natural Gas (USD/mmbtu)	4.87	30.7%	30.7%
Gold (USD/Ounce)	1,797	-1.8%	-1.8%
Copper (USD/MT)	9,578	-1.7%	-1.7%
Aluminium (USD/MT)	3,050	8.7%	8.7%
Nickel (USD/MT)	22,836	9.4%	9.4%
Urea Middle East (USD/MT)	869	-9.4%	-9.4%
Methanol China (USD/MT)	367	18.8%	18.8%
SE Asia Polyethylene (USD/MT)	1,240	4.2%	4.2%
Polypropylene (USD/MT)	1,280	7.6%	7.6%
US Dollar Index	96.54	0.9%	0.9%
MSCI EM Currency index	1,736.69	0.1%	0.1%
JPM EM Currency index	53.35	1.5%	1.5%
EGP/USD	0.06	0.0%	0.0%
TRY/USD	0.075	0.0%	0.0%
PKR/USD	0.566	0.1%	0.1%
ILS/USD	0.316	-2.1%	-2.1%
EUR/USD	1.12	-1.2%	-1.2%
GBP/USD	1.34	-0.6%	-0.6%
USD/JPY	115.11	0.0%	0.0%

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.

	2022	Inception (30 Jul 2020) (Class I)
Total Return*	1.0%	50.1%
Annualized Return	-	31.1%
Annualized Volatility	-	8.7%
Sharpe Ratio	-	3.4

** NAV as of January 27th, 2022*

The fund gained 1% during the month. In terms of asset class, equities contributed nearly all of this performance. Geographically, Saudi and Qatar were the key contributor to the fund return with a contribution of 1.6% and 0.4%, respectively. UAE and Egypt underperformed, with a contribution of -0.6% and -0.4%, respectively.

We reinitiated a position in QAMCO due to the solid spreads it currently enjoys between alumina and aluminum and the robust recovery seen in ammonia volumes.

In equities, given higher vaccination rates and, we continue to like reopening names in airlines, hotels and malls. We also like well capitalized banks with strong CASA and corporate exposure, given the hawkish Fed outlook.

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.

	2022	Inception (May 2021)
Total Return	3.6%	11.6%
Annualized Return	-	16.8%
Annualized Volatility	-	5.6%
Shape Ratio	-	1.4

** NAV as of January 31st, 2022*

The fund gained 3.6% during the month. In terms of asset class, equities contributed nearly all of this performance and fixed income contributed negatively. Geographically, Saudi and UAE were the key contributor to the fund return with a contribution of 3% and 0.5%, respectively. Egypt underperformed, with a contribution of -0.2%

We initiated a position in Qatar Islamic Bank as the announced dividend payout yielded around 3.0%. Moreover, the name should witness strong set of index flows (approximately 70 days) on its FOL hike.

We continue to like names within the communication services sector, regional top banks, oil and gas drillers and retailers, insurance providers and construction supply players.

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.

	2022	Inception (Nov 2020)
Total Return**	0.4%	10.2%
Dividends Paid**	0.6%	9.24%
Rating	BB	
Annualized Return	8.1%	
Annualized Volatility	10.9%	
Sharpe Ratio	0.59	

*** Indicative of January 31, 2021*

The total return of the was 0.38%, which was mainly due to our exposure to Turkey. Turkey was the biggest contributor to the portfolio. The biggest detractor amongst our corporate positions was Arabian Center, given the idiosyncratic stories attached to the name. During January our high beta sovereign calls in Egypt and Jordan was hit the hardest.

As expected, price return explains most of the performance, which was largely due to the classic fly back to quality.

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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