



Monthly Market Insights

February 2021

Macro update – Return to normalcy

Asset Classes	Closing	MTD	YTD
S&P 500	3714	-1.11%	-1.11%
MSCI EM	1330	3.15%	3.15%
MSCI World	2662	-0.91%	-0.91%
MSCI GCC	564	2.82%	2.82%
Oil	54.85	7.74%	7.74%
Gold	1848	-2.47%	-2.47%
US Treasury Yield	1.066	14bps	14bps

Key Market Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.202	-3.7	-3.7
EURIBOR	-0.548	-0.3	-0.3
TIBOR	0.079	0.0	0.0
SIBOR	0.815	-0.3	-0.3
EIBOR	0.340	-17.2	-17.2
HIBOR	0.243	-10.9	-10.9

Sovereign CDS	Closing	MTD (bps)	YTD (bps)
Abu Dhabi	44.5	6.1	6.1
Saudi Arabia	67.6	1.8	1.8
Kuwait	45.7	-1.1	-1.1
Bahrain	247.4	6.5	6.5
Oman	335.8	-25.7	-25.7
Turkey	310.3	5.6	5.6

Upcoming Key Event	
03.02.2021	IHS Markit UAE PMI
05.02.2021	US Unemployment Rate
10.02.2021	US CPI - January
10.02.2021	Saudi Arabia 4Q20 GDP
12.02.2021	UK 4Q20 GDP
18.02.2021	Turkey Central Bank Meeting

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OVERVIEW

The year 2021 started on a strong note, with reflation theme largely dominating the markets. Hopes for a global economic rebound fuelled by the rollout of vaccines and substantial US fiscal stimulus of \$1.9tn proposed by the newly inaugurated US President Joe Biden appeared to drive investors' confidence. However, markets also feared a potential tightening in Fed policy with a significant rise in inflation expectations. However, the Fed chief discarded speculation of tightening the policy anytime soon. Moreover, the Federal Reserve struck a dovish tone at its latest meeting and pledged to maintain the current pace of treasury purchases. The European Central Bank also kept the interest rate unchanged and maintained the steady pace of asset purchases, in line with expectation, after having stepped up its stimulus in December. Global equities extended the rally entering 2021, reaching new record highs, while the 10-year Treasury yield breached the 1% mark hitting a 10-month high. The trends however reversed in the wake of Fed's statement and concerns around rising COVID cases.

MACRO BACKDROP

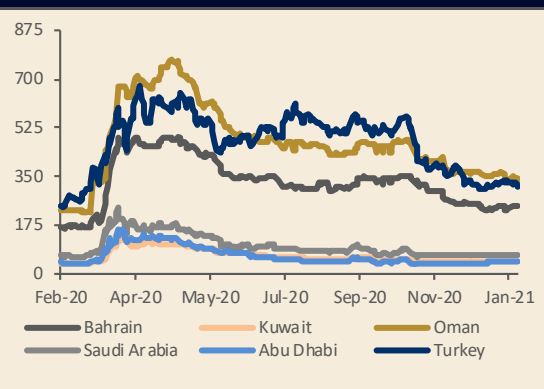
- In US, the economic data painted a mixed picture. GDP for the fourth quarter came in at 4% q/q on annualized basis, below expectation of 4.2% (3Q: 4.3% q/q), with government and consumer spending being notable drags on growth. For early January, however high frequency indicators suggested improved economic activity, as the IHS Markit's preliminary gauge of both manufacturing and services sector activity surprised to the upside at 58.0 vs 55.3 in December.
- In Eurozone, the second wave of infections appeared to be turning into a long drag on the economy. The IHS Markit Eurozone PMI Composite contracted to 47.5 in January from 49.1 in December, with the bloc's dominant services sector taking a greater hit while manufacturing reflected a robust growth.

KEY REGIONAL NEWS

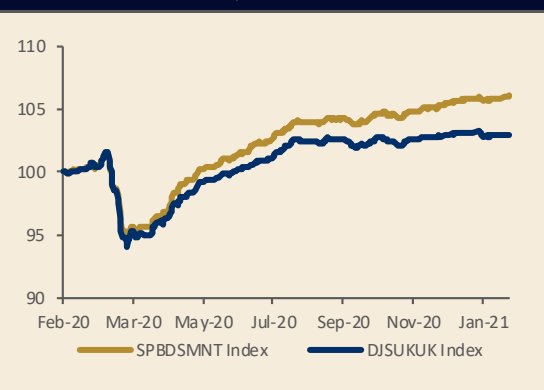
- Saudi Arabia pledged to slash oil production by one million barrel/day in February and March as part of a deal under which most OPEC+ producers will hold production steady. Source: Reuters
- Kuwait discovers two new oil field: Houma oil field and Al-Qashaniya having a total capacity of 3,271 barrels/day and 2.78mn cubic feet of associated gas per day. Source: Reuters
- Dubai announced a fifth economic stimulus package of AED315mn to support economic and business sectors affected by the COVID. This raises the total stimulus to AED7.1bn. Source: Arab News
- Bahrain approves emergency use authorisation of AstraZeneca-Oxford vaccine, the third vaccine approval after Pfizer-BioNtech and Sinopharm. Source: Gulf News

Sukuk – Banks continued to tap the primary market

Sovereign 5-year CDS spread movement

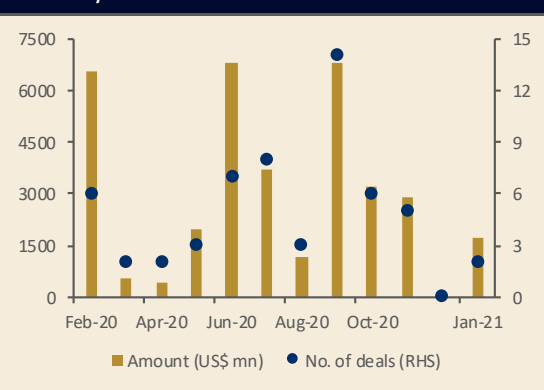


Sukuk index total expected return*



*rebased to 100 on 1 February 2020

Monthly Sukuk new issuance volume



Development in regional CDS market

Turkish 5-year CDS spreads widened by 26bps in January 2021 owing to rising inflationary pressure with inflation rate of 14.6% in December 2020 (vs. 14% in November 2020), significantly above the central bank's (CBT) target range of 3-7%. In the January 2021 meeting, CBT held its benchmark return rates unchanged at 17% following the massive 200bps hike in the previous month. Nonetheless, the policymakers continued to maintain hawkish stance. Oman's 5-year CDS spread tightened 13bps MTD owing to oil price recovery which should alleviate pressures on fiscal deficit. Oman forecasted a budget deficit of 8% of GDP in 2021 (assuming an average oil price of \$45 per barrel) while targeting a budget surplus in 2025. On the other hand, CDS spreads of Bahrain and Kuwait were broadly stable while Saudi Arabia's and Abu Dhabi's spread widened slightly by 3bps and 6bps during January 2021.

Steady start moving into 2021

Both S&P Sukuk MENA and Dow Jones Sukuk indices remained broadly stable in January 2021. Government-related entities (GREs) performed well with Saudi Electric 22s' tightening by 204bps and Seenat by 163bps. Also, Mumtalakat 27s', the sovereign wealth fund of Bahrain tightened by 122bps. On the contrary, the sovereign sukuk of Sharjah 24s' and Oman 24s' were the worst performers, widening by 486bps and 278bps, respectively. Primary market Sukuk volumes were driven by Sukuk issuance by National Commercial Bank (NCB) and First Abu Dhabi Bank (FAB). NCB raised \$1.25bn through additional tier 1 Sukuk. The issuance was oversubscribed by 3.6x, which led the bank to tighten final pricing by an enormous 62.5bps to 3.5%, the lowest coupon ever for a perpetual issuance from the Gulf region. Meanwhile, FAB issued Sukuk worth \$500mn. The issue was subscribed 3.0x and carries a coupon rate of 1.411%, the lowest-ever by any bank in MENA region.

Key developments

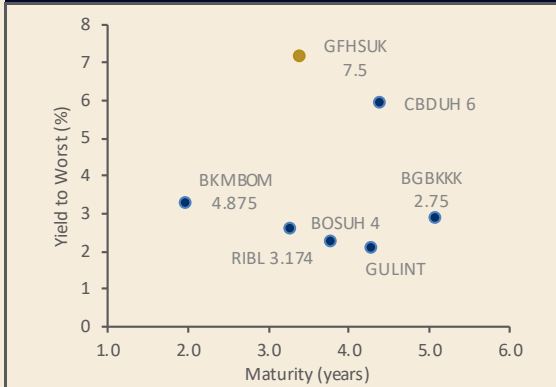
- On January 15, 2021, **S&P affirmed Kuwait's 'AA-' rating with a negative outlook**, reflecting short and medium-term risk stemming from fiscal pressure, continued depletion of General Reserve Fund (GRF) and persistently slow structural reforms.
- Arab Petroleum Investment Corp (APICORP)** and ACWA Power have signed on a \$125mn 5-year corporate facility to support ACWA Power's future growth pipeline.
- First Abu Dhabi Bank (FAB)** signs for its first international acquisition to takeover **Egyptian business** of Lebanese lender - **Bank Audi**.
- Tabreed** has signed a **30-year long services agreement** to provide cooling services to Abu Dhabi's **twofour54** new headquarters 'Yas Creative Hub' spanning 270,000 square metres.

Sukuk – Banks continued to tap the primary market

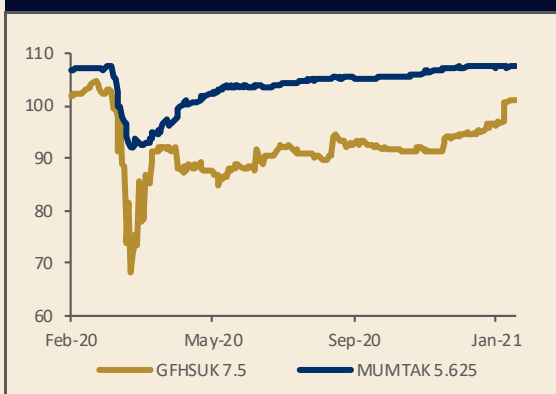
GFH Financial Group

- Established in 1999, GFH Financial Group (GFH) is a Bahrain-based Islamic investment bank with an asset base of \$6.1bn and asset under management worth \$2.0bn as of September 2020. Besides, GFH enjoys a rich land bank of over 200mn square feet and stable pipeline of deals in investment banking. GFH operates three subsidiaries: GFH Properties, GFH Capital and Khaleeji Commercial Bank.
- GFH has diversified its revenue into (i) Investment Banking (31% of revenue in 9M20), (ii) Commercial Banking (21%), (iii) Proprietary and Co-investments (P&C, 13%) across financial services, education, leisure and hospitality, (iv) Real Estate (6%) and (v) Treasury (29%).
- Currently, the bank is shifting its business model toward a stable and recurring revenue source (fee-based and low-risk fixed-income generating assets) from transactional-based (deal or project-driven) revenue streams. Besides, GFH is expanding its footprint in Europe and USA, especially in real estate projects generating recurring revenues such as malls, warehouses, data centres etc.
- GFH business model provided some resilience during COVID-19 pandemic and low oil prices. In 9M20, GFH top-line was down by 12.6% y/y to \$214mn, thanks to healthy investment banking operations and strong treasury-related executions as well as hand over of completed units in Bahrain's flagship Harbour Heights project.
- GFH is mainly reliant on wholesale funding. Yet, the bank has a strong liquidity coverage ratio of 142% and low net obligation to equity ratio of 1.9x as of September 2020. Besides, the bank is sufficiently capitalized with a capital adequacy ratio of 13.6%, comfortable above the minimum regulatory requirement of 12.5%.
- GFHSUK 7.5 25s is currently trading at 101.2, offering an attractive coupon rate of 7.5% and YTW of 7.14%. Moreover, the GFHSUK 7.5 offers a good pick over MUMTAK 5.625 24. Though, we note that MUMTAK is rated 2-notch above GFHSUK. We expect economic recovery and smooth execution of projects in the pipeline may further improve the credit metrics of GFH.

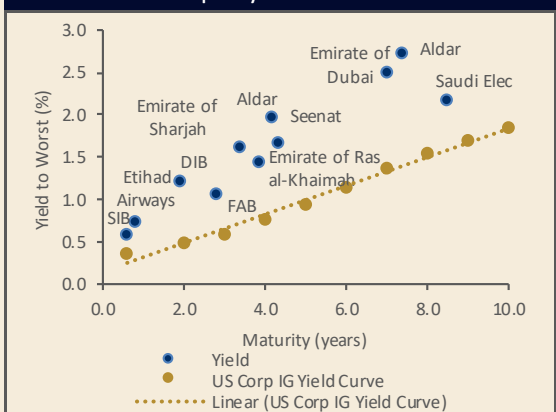
GFHSUK 7.5 offers higher yield than regional banks



GFHSUK 7.5 vs. MUMTAK 5.625



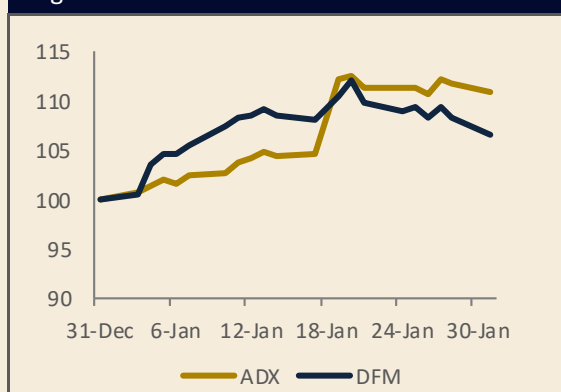
Sukuk vs. US Corp IG yield curve



Issuer Name	Expected Coupon (%)	Issue Date	Maturity	Amount Issued (US\$mn)
First Abu Dhabi Bank	1.411	01/14/2021	01/14/2026	500
National Commercial Bank	3.500	01/26/2021	10/28/2030	1,250

UAE Equities – Exuberance owing to positive business sentiment

Regional index movement*



*Rebased to 100 on December 31

DFM top five gainers and losers

Gainers	MTD	Losers	MTD
ERC	247.3%	GULFNAV	-10.6%
DFM	31.2%	ASCANA	-7.9%
DU	14.8%	DXBE	-7.9%
EMIRATES	12.6%	ALRAMZ	-6.8%
BHMUBASH	12.4%	EIB	-5.0%

ADX top five gainers and losers

Gainers	MTD	Losers	MTD
TKFL	29.5%	FNF	-16.4%
AGTHIA	24.7%	ADNH	-12.1%
JULPHAR	24.1%	BILDGO	-11.2%
RAKPROP	19.0%	RAKWCT	-8.1%
EASYLEAS	18.2%	UNION	-7.1%

UAE markets continue the positive momentum

The UAE equities continued its momentum on a MTD basis (Dec 25, 2020 to Jan 25, 2021) with ADX and DFM indices gaining 9.6% and 7.7%, respectively, mainly driven by improving risk appetite among investors' in the midst of optimism over COVID-19 vaccine distribution gaining strength and likely another stimulus package in the US, further boosted by removal of blockade on Qatar and commencement of airline & trade activities. Furthermore, the Dubai EXPO is keenly awaited which would give a boost to the business sentiment. In terms of value, foreign investors bought stocks worth of AED743mn on ADX and AED412mn on DFM, considering comfortable valuations for certain sectors. Regionally, the UAE market's outperformance was led by key sectors such as Telecommunication (+15.5% for DFM and +13.1% for ADX), Banks (+10.4% for ADX and +8.4% for DFM) and Real Estate (+9.3% for ADX and +6.2% for DFM). Telecommunication index started on a strong positive note, supported by prospects on increasing the foreign ownership in the companies. At stocks level, index heavyweights such as Emaar Properties (+10.1%), DIB (+7.7%), and FAB (+13.0%) led the gainers. The DFM and ADX average daily volume dropped by 19% MoM to 207mn and 14% MoM to 101mn, respectively.

For ADX, since April 2020, the index is in upward trajectory but has faced resistance at 5,715 mark. To continue its upward momentum, the index must break this level. The index may show some correction at this level and 5,400 & 5,255 are support levels for the index. The DFM index has faced resistance at 2,807 and may halt its upward momentum. Support levels are – 2,580, 2,410 & 2,130.

Most read regional company headlines

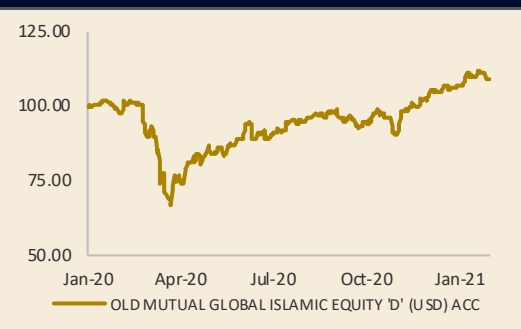
EMIRATES	Emirates NBD hires banks for bond deal
FAB	First Abu Dhabi Bank raises CNY1.5bn from Formosa Bond
FAB	FAB Bank to buy Egyptian business of Bank Audi
SHUAA	SHUAA Capital invests in music streaming service Anghami
ADNOCDIS	ADNOC Distribution acquires 15 service stations in Saudi
EMAAR	Dubai's biggest developer Emaar Properties halts new construction work, chairman says

Performance of regional markets

Country	Last close	Index changes %		MCap US\$bn	Volume mn shrs	Turnover US\$ mn	P/E (x) 12M	P/B (x) 12M	Div Yld 12M %
		1M	YTD						
Abu Dhabi	5,593.48	10.9	10.9	215.0	71.9	105.3	22.2	1.6	4.3
Dubai	2,654.06	6.5	6.5	77.4	95.9	38.9	13.3	0.9	3.6
Saudi Arabia	8,702.55	0.1	0.1	2,412.3	215.5	2,594.6	33.9	2.1	2.4
Kuwait (All shares)	5,780.03	4.2	4.2	108.7	450.8	172.5	37.8	1.4	3.4
Oman	3,653.22	-0.2	-0.2	11.4	11.8	4.0	13.2	0.7	6.9
Bahrain	1,462.61	-1.8	-1.8	22.4	5.0	1.6	14.2	1.0	4.6
Qatar	10,473.50	0.4	0.4	150.0	38.4	47.2	18.2	1.5	3.8

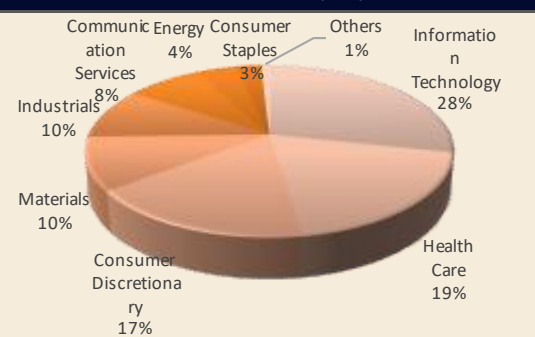
Mutual funds’ – Global markets looking ahead towards recovery

Old Mutual Global Islamic Equity 'D' (USD)



*Rebased to 100 on 1 January 2020

Old Mutual Global Islamic Equity 'D' (USD)



Global equity funds maintain uptrend

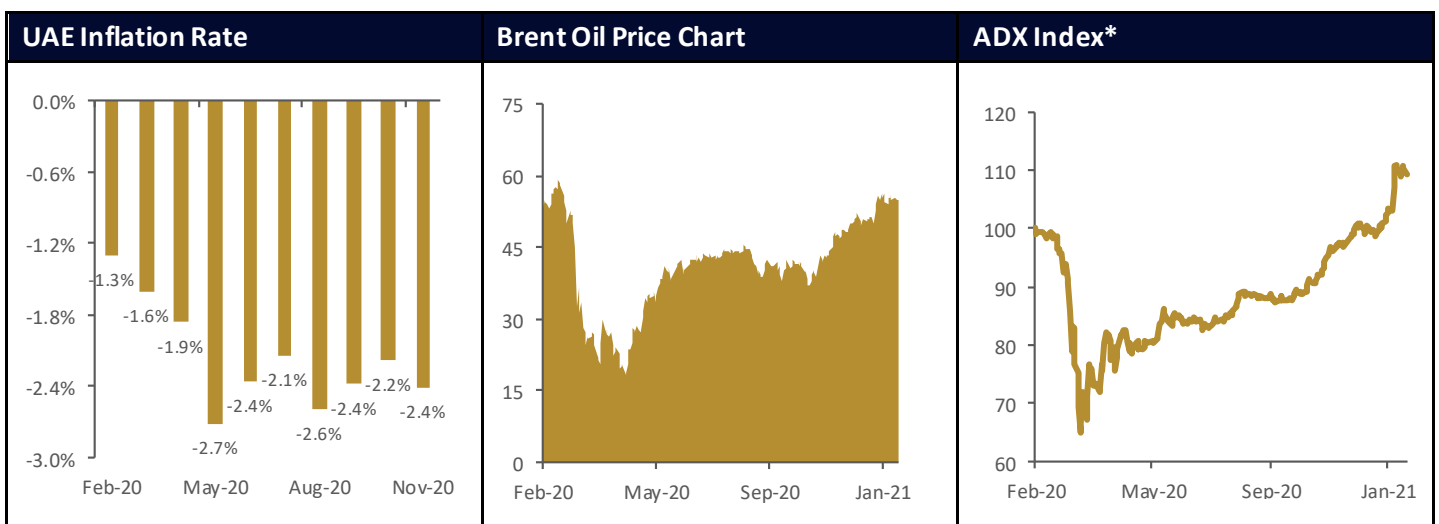
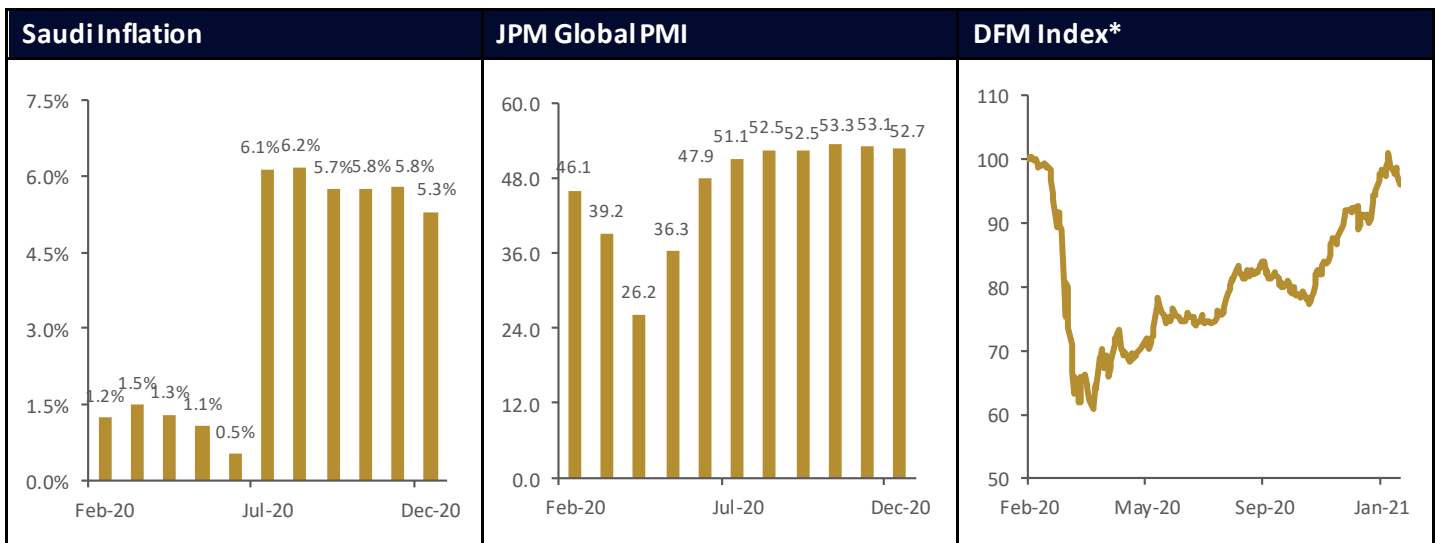
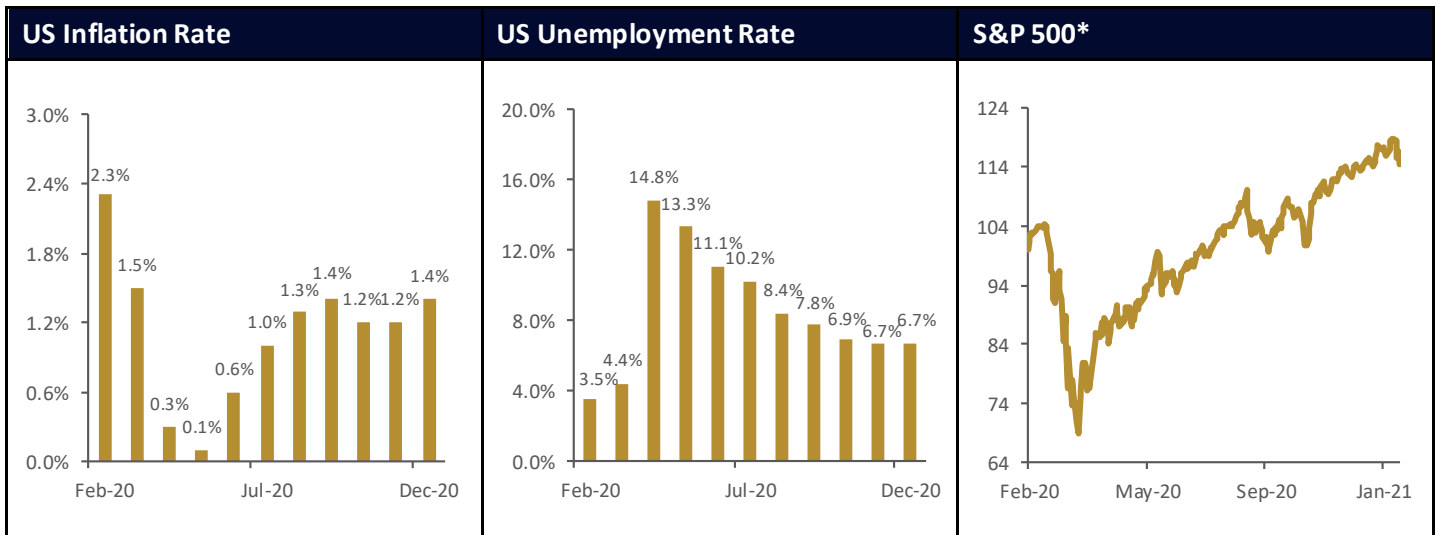
- From our coverage of 30 funds, most closed in the green on MTD basis (Dec 25 to Jan 25), with equity funds leading the gainers pack, as global equity markets have attained new peak on the back of the momentum witnessed since the 3Q 2020. However, the momentum seems to be fading away recently from US and European economies, due to the delay in approval of newly proposed US stimulus, rising number of COVID-19 patients, shortage of vaccines and ongoing partial lockdowns.
- Emirates India Equity “A” (USD) Fund (+8.6% MTD) was the standout performer from funds coverage. The outperformance was mainly attributed to the high investment allocation to the IT, Consumer Discretionary and Healthcare sectors, which provided strong returns.
- Az Islamic Multi Asset Global Sukuk “A” (AED) Inc declined marginally (-0.8% MTD). The underperformance can be attributed to the high exposure to Global Sukuk and cash reserves, which lagged equity funds during the period.

Old Mutual Global Islamic Equity Fund

Launched in 2016, the Old Mutual Global Islamic Equity Fund is an open-ended Shari’ah-compliant equity fund that offers investors exposure to a broad spectrum of developed market equities (63% exposure to the US). The fund has been underperforming its benchmark (S&P Developed Large Mid Cap Shari’ah Index) with returns of 7.0% (vs. 25.9% for BM) and 9.3% (vs. 16.4%) for 1 year and since inception, respectively, as on Nov 2020. The asset allocation is skewed towards the Information Technology (28.4%), Healthcare (19.3%) and Consumer Discretionary (17.0%) sectors. Going forward, given the expected corporate earnings recovery, vaccine rollout and additional stimulus in the United States, the global market is well-positioned to witness a sustainable recovery, which may benefit the fund.

List of mutual funds

Fund names	ISIN	NAV	Currency	MTD	YTD
Emirates NBD SICAV - Mena Opportunities “A”	LU1060357412	11.96	USD	2.35%	2.35%
Old Mutual Global Islamic Equity ‘D’	IE00BYMM2054	14.19	USD	2.01%	2.01%
Emirates Global Sukuk Fund Ltd	JE00B5V8LK49	15.34	EUR	1.76%	1.76%
AlAhli North America Index Fund	AFB007013901	6.73	USD	1.45%	1.45%
Emirates NBD SICAV - Mena Opportunities “A”	LU1654397329	9.95	USD	1.32%	1.32%
Franklin Global Sukuk Fund “A”	LU0923115892	13.19	EUR	1.00%	1.00%
Templeton Shariah Global Equity Fund “A”	LU0792757196	14.34	USD	0.91%	0.91%
Emirates India Equity Fund	LU1484867434	14.93	USD	0.86%	0.86%
AlAhli GCC Trading Equity Fund	AFB007482106	1.09	SAR	0.77%	0.77%
Mashreq Al-Islami Income Fund	AEDFXA1T6467	19.44	USD	0.70%	0.70%
AZ Multi Asset - AZ Islamic – Global Sukuk “A”	LU1590082662	5.70	AED	0.53%	0.53%



All figures and charts across the report are sourced from Bloomberg and ADIB research. Data as on 31 January 2021

*rebased to 100 on 1 February 2020

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