ADIB
PRIVATE BANKING

مصرف أبوظبي الإسلامي
الخدمات المصرفية الخاصة

# Monthly Market Insights

**March 2021**

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# Macro update – Inoculation drive hastens

| Asset Classes | Closing | MTD | YTD |
|---|---|---|---|
| S&P 500 | 3811 | 2.61% | 2.99% |
| MSCI EM | 1339 | -2.35% | 2.67% |
| MSCI World | 2727 | 1.21% | 2.13% |
| MSCI GCC | 581 | 2.93% | 5.60% |
| Oil | 64.43 | 17.25% | 28.81% |
| Gold | 1734 | -5.96% | -10.75% |
| US Treasury Yield | 1.405 | 39bps | 49bps |

| Key Interest Rates | Closing | MTD (bps) | YTD (bps) |
|---|---|---|---|
| LIBOR | 0.188 | -1.4 | -4.9 |
| EURIBOR | -0.53 | 1.8 | 1.6 |
| TIBOR | 0.079 | 0 | 0 |
| SIBOR | 0.8 | -1.6 | -1.6 |
| EIBOR | 0.307 | -9.4 | -14.3 |
| HIBOR | 0.227 | -1.5 | -10.3 |

| Sovereign CDS | Closing | MTD (bps) | YTD (bps) |
|---|---|---|---|
| Abu Dhabi | 46.5 | 1.9 | 8.2 |
| Saudi Arabia | 67.2 | -0.4 | 1.6 |
| Kuwait | 45.2 | -0.6 | -1.7 |
| Bahrain | 235.0 | -12.4 | -11.4 |
| Oman | 335.0 | -0.8 | -32.2 |
| Turkey | 316.9 | 6.6 | 13.1 |

| Upcoming Key Event | |
|---|---|
| 04.03.2021 | OPEC Meeting |
| 05.03.2021 | US Unemployment Rate |
| 11.03.2021 | ECB Meeting |
| 17.03.2021 | FOMC Rate Meeting |
| 18.03.2021 | Turkey Central Bank Meeting |
| 31.03.2021 | Saudi Arabia Unemployment Rate |


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## OVERVIEW

February experienced growing optimism around the global economic recovery as vaccination programs gained significant momentum. Reflation trades were in play through major part of the month amidst discussions around large US fiscal stimulus package and release of stronger-than-expected economic data. The equity markets witnessed rotational shift into the cyclical stocks, while the long-term US Treasury yields marched north resulting in sharp steepening of the curve. The 10-year benchmark Treasury yield touched 1.61%, the highest level in a year, underscoring lingering inflation fears and speculations of Fed taper tantrum. However, the Fed Chair Jerome Powell watered down the fears at his testimony before Senate Banking Committee, citing it would take at least three years to achieve inflation goals and the economy was far from attaining it lowest unemployment rate. On the political front, the Democrats in US showed notable progress towards passage of another round of coronavirus relief bill as the current benefits are due to expire in mid-March.

## MACRO BACKDROP

- The US economic data came in stronger than expected during the month. Personal income rose 10.1% and retail sales jumped 5.3% for January, primarily driven by fresh stimulus checks passed in December. Weekly jobless claims hit their lowest levels of 730,000 in three months, registering the biggest decline since August. Meanwhile, consumer inflation came in soft at 1.4%y/y, with inflation mainly seen in housing sector.
- In Eurozone, the Economic Sentiment Index rose to 93.4 in February from 91.5 a month ago, the highest since March last year. Survey suggested that consumer confidence was on rise across Germany and Italy while it improved only marginally in France. Meanwhile, German 4Q20 GDP data was revised up from 0.1% to 0.3% underpinned by strong exports and solid construction activity.

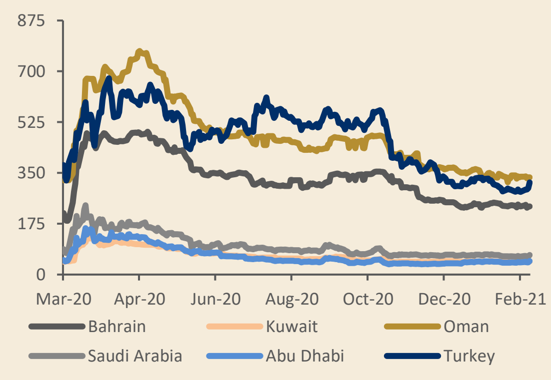
## KEY REGIONAL NEWS

- OPEC forecasts oil demand in 2021 to rebound more slowly as the impact of pandemic lingers. Oil demand is expected to rise by 5.79mn bpd to 96.05 bpd, trimming its growth forecast by 110k bpd from a month ago. However, OPEC forecast a healthy demand pick up in 2H21. *Source: Reuters*
- Saudi Arabia taps the Euro-fixed market amidst ultra-low borrowing cost to reduce reliance on dollar debt by raising €1.5bn through three year and nine-year tranche. *Source: Reuters*
- Saudi Arabia made it compulsory for foreign companies to move their headquarters to the kingdom by 2024 if they want to win government contacts. *Source: Zawya*
- Bahrain becomes the first nation to authorise Johnson & Johnson's new single-doze coronavirus vaccine for emergency use, making it the fifth vaccine available in the country. *Source: Arab News*

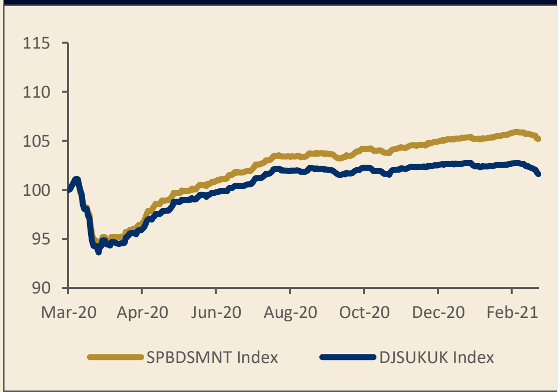
# Monthly Market Insights

## Sukuk – Quiet Sukuk primary market

Sovereign 5-year CDS spread movement

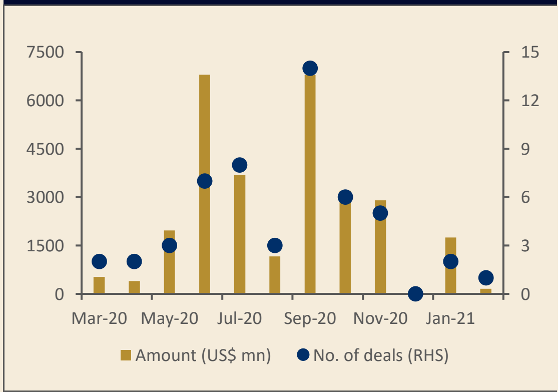



Sukuk index total return*




*rebased to 100 on 1 March 2020

Monthly Sukuk new issuance volume




### Development in regional CDS market

Turkey's 5-year CDS spread widened by 6bps MTD in February 2021 owing to continued inflationary pressures which is forecasted to increase to ~15.4% in February 2021 from 14.9% in January 2021. Meanwhile, in the February 2021 meeting, CBT (Central Bank of Turkey) held its benchmark interest rate unchanged at 17% while continuing to maintain a hawkish stance until inflation drops below 10% by 2021-end. Moreover, on February 19, 2021, Fitch revised Turkey's outlook to 'stable' from 'negative' as a more consistent policy mix under the new economic team has helped ease near-term external refinancing risk. CDS spreads in the GCC region were supported by multiple vaccines approval as well as sustainable recovery in crude oil prices. Notably, Bahrain's 5-year CDS spreads tightened the most in the region by 12bps while 5-year CDS spreads of Saudi Arabia, Kuwait, Oman and Abu Dhabi were broadly stable.

### Markets remain placid in February

Both S&P Sukuk MENA and Dow Jones Sukuk indices were down marginally by 0.3% MTD and 0.9% MTD in February 2021. The Dubai International Financial Centre 24s' and Investment Corporation of Dubai 27s' were the best performers with yield-to-worst (YTW) tightening by 36bps and 28bps, respectively. On the contrary, the Dubai Department of Finance 22s' and Republic of Indonesia 27s' were the worst performers, widening by 145bps and 43bps, respectively. The primary Sukuk market remained quiet with only First Abu Dhabi Bank (FAB) tapped the market by raising $160mn through two tranches of $110mn and $50mn under its $3.5bn Trust Certificate Issuance Program. The Sukuk will be consolidated and form a single series with the $500mn Sukuk issued in January 2021 and due in January 2026.

### Key developments

- IMF forecasts **Bahrain's economic recovery** to be gradual with growth projected at **3.3% in 2021 following a contraction of 5.4% in 2020**. The growth reflects an expected **3.9% recovery in the non-oil sector**, boosted by widespread vaccine distribution.
- **Aldar properties acquire Asteco Property Management** to scale up its existing integrated estate management solutions and **boost revenue stream from advisory and licencing business** segment.
- On February 02, 2021, **Fitch affirmed Kuwait's 'AA' rating**, revised **outlook to negative**, citing the weakening of fiscal and external balance sheet owing to near-term liquidity risk associated with the **depletion of liquid assets in the General Reserve Fund** in the absence of parliamentary authorisation for the government to borrow debt.
- **FAB raises over AED3bn within 3 days**, via the regions **first and largest Financial Institution Sterling fixed income** issue worth **GBP450mn** (AED2.15bn) with three years maturity. FAB also raised **AUD350mn** (AED860mn) through a **Kangaroo issuance**.

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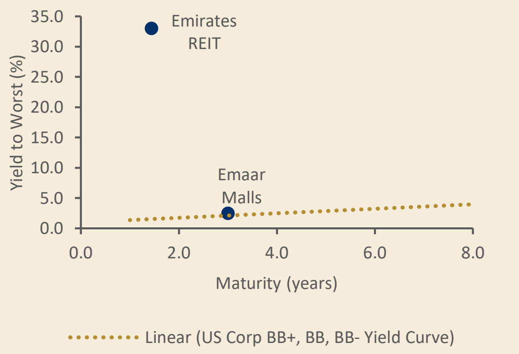
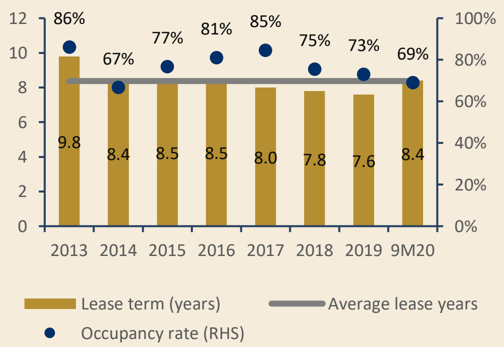
# Sukuk – Quiet Sukuk primary market

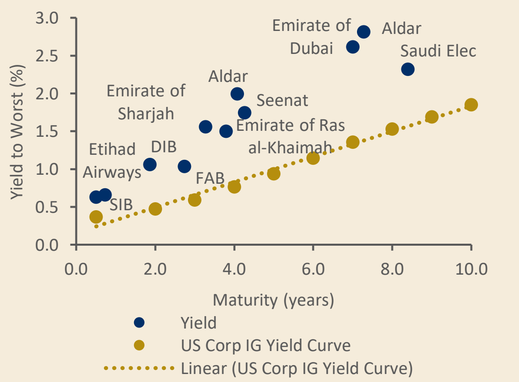
EREIT trading at significant yield than peers




Average lease term and occupancy rate




Sukuk vs. US Corp IG yield curve

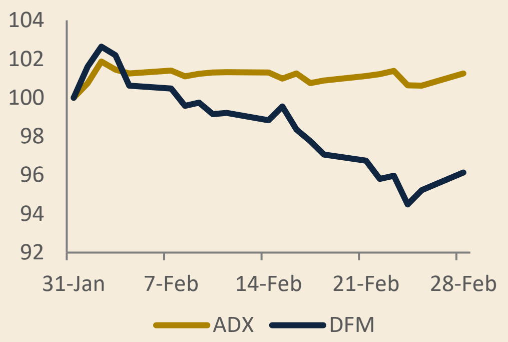



## Emirates REIT

- Founded in 2010, Emirates REIT (EREIT) is the UAE's first and largest Sharia-compliant Real Estate Investment Trust, owning a small and high-quality portfolio of 11 properties in Dubai with a leasable area of 2.4mn square feet, valuing US$855mn (AED3.1bn) as of September 2020.
- EREIT predominantly focuses on high-quality income-producing assets with a portfolio mix of seven commercial properties (contributing 70% to rental income) and four schools. Moreover, commercial properties have lease maturities between 1-5 years and schools have over 25 years, ensuring a good balance between rental income growth and stability. As of September 2020, EREIT had a Weighted Average Lease Term of 8.4 years (vs. 7.6 years in December 2019).
- Notably, despite COVID lockdowns, rental income was down only by 6.3% y/y in 9M20 as all properties continued to generate rental income except for two schools and few retail tenants (contributing 10% of rental income).
- Historically, EREIT posted an EBITDA margin of above 55%. However, the muted real estate environment amidst oversupplied conditions and COVID-19 impact brought down the EBITDA margin to 45% in 9M20.
- That said, the trust has a cash balance of $21.6mn and net receivable of $14.4mn against short term debt obligations of $25.5mn. Moreover, REIT has an inventory base of $855mn which can be encumbered if needed to manoeuvre through the coronavirus battered economic challenges.
- Nonetheless, EREIT is currently in litigation with the Jabel Ali School operator for non-payment of rent and is in advanced discussion with various operators interested in leasing the school in Dubai Investment Park (DIP). Also, it has reached near completion of re-configuration of offices in its largest asset, the 80-storey Index tower (Occupancy: 46.3%; represents ~40% of portfolio value) and few other properties which should improve revenues and credit metrics going forward.
- The Sukuk is currently trading at $64.4, offering a coupon of 5.125% and YTW of 33.0% reflecting lower occupancy, size and EBITDA margins than most of the peers. The Sukuk matures in December 2022. EREIT could face some refinancing risk owing to the expected slow recovery in Dubai's real estate sector while being burdened with ongoing DFSA investigation and potential delisting from Nasdaq Dubai. Notably, the recent rumours regarding capital infusion have been taken positively by the market participants, stock price was up by 5% and some uptrend also witnessed in the Sukuk price.
- However, we believe that EREIT is better positioned than retail-focused REIT peers given its higher exposure to commercial properties and near completion of re-configuration of offices whose demand is expected to pick up towards 2H20 on the back of the ongoing vaccination program.
- Risks: High leverage (17.3x at 9M20), declining occupancy rate (69% vs 73% at 2019-end), relatively low interest coverage (1.1x) and stressed Dubai's real estate sector has forced EREIT to make rent concessions to retain and attract new tenants.

## UAE Equities – Some profit booking from recent highs

Regional index movement*




*Rebased to 100 on January 31

DFM top five gainers and losers

| Gainers | MTD | Losers | MTD |
|---|---|---|---|
| DIN | 78.6% | ASNIC | -37.7% |
| ERC | 49.9% | DFM | -13.1% |
| ALRAMZ | 27.1% | DAMAC | -11.9% |
| DNIR | 14.9% | AMLAK | -11.3% |
| BHMUBASH | 14.2% | ARMX | -9.7% |

ADX top five gainers and losers

| Gainers | MTD | Losers | MTD |
|---|---|---|---|
| DHAFRA | 29.9% | AWNIC | -30.0% |
| AGTHIA | 28.9% | GMPC | -16.7% |
| RAPCO | 24.7% | GCEM | -10.7% |
| NMDC | 18.5% | UAB | -9.9% |
| ADAVIATI | 17.3% | RAKNIC | -9.6% |

### UAE markets closed on a mixed note

After continuing last month's strong momentum in the beginning of the month, the UAE equities started seeing some sell-off owing to investors' renewed concerns over rising COVID-19 cases across the UAE which may delay the economy recovery. In addition, rising US treasury yields further added to the negative sentiments on increasing risk of inflation, resulting in net selling from foreign investors as they sold stocks worth of AED390mn on ADX and AED146mn on DFM. However, optimism over COVID-19 vaccine, Dubai EXPO, strong rebound in crude oil prices, and new stimulus package in the US eased worries to some extent. On monthly basis, the UAE markets posted divergence in returns with ADX recording gain of 1.3% while DFM declined 3.9% during Feb 2021. On sectoral basis, Banks (-3.4% for DFM, -0.6% for ADX), Real Estate (-4.9% for DFM, +4.6% for ADX) and Telecommunication (+3.5% for DFM, +2.9% for ADX) also closed in mixed territory. At stocks levels, index heavyweights such as Emaar properties (-4.0%), Emirates NBD (-3.9%), DIB (-3.2%) and FAB (-0.5%) led the losers while Emirates Integrated Telecommunications (+3.5%) and Emirates Telecommunications (+2.9%) gained. The DFM average daily volume declined by 49% MoM to 111mn while the daily volumes increased 58% MoM to 163mn on the ADX. Going forward, the market outlook looks positive supported by recent passage of US stimulus, higher oil, likely softening of US treasury yields and continued monetary support.

For ADX, the index was highly range bounded in between 5,593 – 5,700 during Feb 2021. To continue its upward trajectory, the index has to break resistance level of 5,703 with higher volume. If index fails to break this resistance, then it will show some correction. The DFM index faced resistance at 2,807 and started to trade below 50-SMA. The index may take support at 100-SMA. Support levels are – 2,580, 2,410 & 2,130.

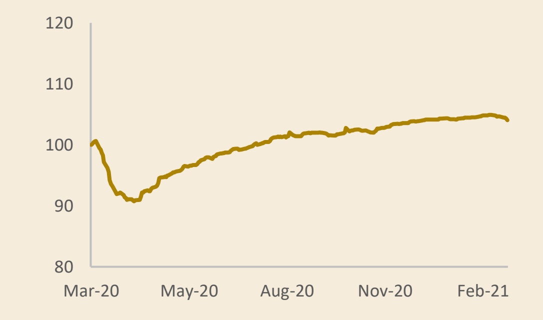
| Most read regional company headlines | |
|---|---|
| FAB | FAB's reports net profit of AED10.5bn in FY20 |
| EMIRATES | EMIRATES's reports net profit of AED7.0bn in FY20 |
| EIB | EIB's reports net loss of AED482.2mn in FY20 |
| MASQ | MASQ reports net loss of AED1.3bn in FY20 |

### Performance of regional markets

| Country | Last close | Index changes % 1M | Index changes % YTD | MCap US$bn | Volume mn shrs | Turnover US$ mn | P/E (x) 12M | P/B (x) 12M | Div Yld 12M % |
|---|---|---|---|---|---|---|---|---|---|
| Abu Dhabi | 5,663.62 | 1.3 | 12.3 | 217.2 | 125.9 | 221.0 | 22.7 | 1.5 | 4.3 |
| Dubai | 2,551.54 | -3.9 | 2.4 | 75.1 | 69.2 | 39.0 | 20.9 | 0.9 | 3.8 |
| Saudi Arabia | 9,144.99 | 5.1 | 5.2 | 2,430.1 | 354.5 | 3,123.7 | 35.7 | 2.2 | 2.3 |
| Kuwait (All shares) | 5,649.16 | -2.3 | 1.9 | 106.2 | 242.7 | 248.2 | 50.7 | 1.4 | 3.4 |
| Oman | 3,612.38 | -1.1 | -1.3 | 11.3 | 4.0 | 1.5 | 11.3 | 0.7 | 7.5 |
| Bahrain | 1,466.43 | 0.3 | -1.6 | 22.4 | 1.5 | 1.2 | 34.3 | 1.0 | 4.6 |
| Qatar | 10,145.99 | -3.1 | -2.8 | 142.8 | 74.1 | 50.3 | 18.8 | 1.5 | 3.6 |

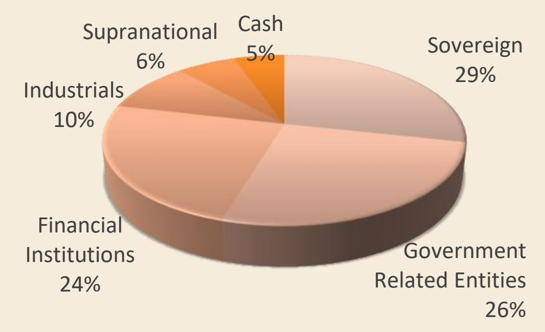
# Mutual funds' – Global markets on crossroads

Franklin Global Sukuk Fund – 'A' (USD)




*Rebased to 100 on 1 March 2020

Franklin Global Sukuk Fund – 'A' (USD)




## Global equity funds losing steam

- From our coverage of 31 funds, 14 funds closed in the green during Feb 2021, with a combination of the equity and debt funds as the gainers, as global equity markets have started to give a mix reaction due to the spike in the treasury yields, causing choppiness in the gains. The overall momentum seems optimistic owing to passage of the stimulus package in the US and progress on inoculations remain on track.
- Old Mutual Global Islamic Equity (+5.7% in Feb 2021) was the standout performer. The outperformance was mainly attributed to the high investment allocation to the Information Technology, Healthcare, and Consumer Discretionary sectors, which provided strong returns.
- Franklin Global Sukuk Fund declined (-0.5% in Feb 2021). The underperformance can be attributed to the high exposure to Sukuk, Murabaha and Wakala which lagged equity funds during the period.

### Franklin Global Sukuk Fund (USD)

Launched in 2012, the Franklin Global Sukuk Fund (FGSF) is an open-ended fund that principally invests in Shariah-compliant Sukuk (including non-investment grade). Around 55% of the portfolio is exposed to UAE and Saudi Arabia. The fund is well diversified with no security accounting for more than 4.12% of the portfolio. The fund delivered a 1-year return of 4.03%, average credit quality of BBB+, average duration of 4.4 years, and trading at a yield to worst of 3.59%, providing decent pick-up from US corporate BBB-rated Index. Around 60.9% of the portfolio is skewed towards sovereign, government related entities and supranational, and 24% is towards financial institutions in the GCC which have government ownership or enjoy strong government support in times of stress. This should ensure a stability and safety in the current turbulent capital market conditions.

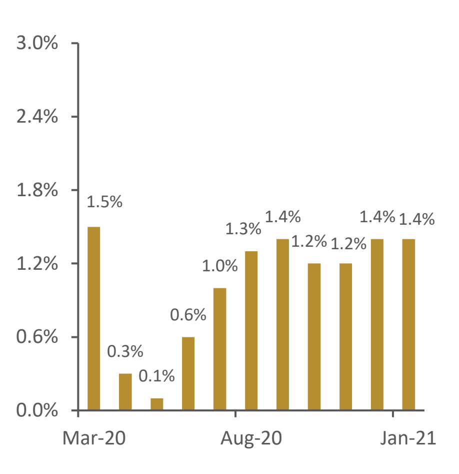
## List of mutual funds

| Fund names | ISIN | NAV | Currency | MTD | YTD |
|---|---|---|---|---|---|
| Old Mutual Global Islamic Equity | IE00BYMM2054 | 14.74 | USD | 5.74% | 5.97% |
| AlAhli Saudi Trading Equity Fund | AFB007482007 | 11.32 | SAR | 4.22% | 3.97% |
| Templeton Shariah Global Equity | LU0792757196 | 14.78 | USD | 3.07% | 4.01% |
| Comgest Growth Europe S | IE00B3ZL9H82 | 26.64 | USD | 2.94% | -0.41% |
| AlAhli GCC Trading Equity Fund | AFB007482106 | 1.11 | SAR | 2.50% | 2.50% |
| Comgest Growth Europe S | IE00B4ZJ4634 | 29.08 | EUR | 2.32% | -0.31% |
| AlAhli North America Index Fund | AFB007013901 | 6.68 | USD | 1.07% | 0.75% |
| Emirates India Equity Fund | LU1484867434 | 15.07 | USD | 0.97% | 1.83% |
| Emirates India Equity Fund | LU1654400644 | 11.65 | USD | 0.95% | 1.04% |
| Franklin Global Sukuk Fund | LU0923115892 | 13.21 | EUR | 0.15% | 1.15% |
| AZ Multi Asset - AZ Islamic - Global Sukuk | LU1435409286 | 5.95 | USD | 0.08% | 0.59% |

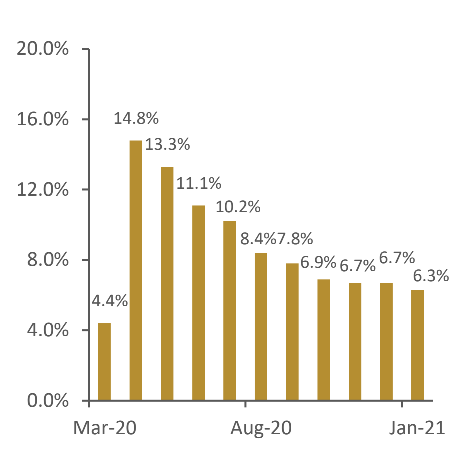
# Monthly Market Insights



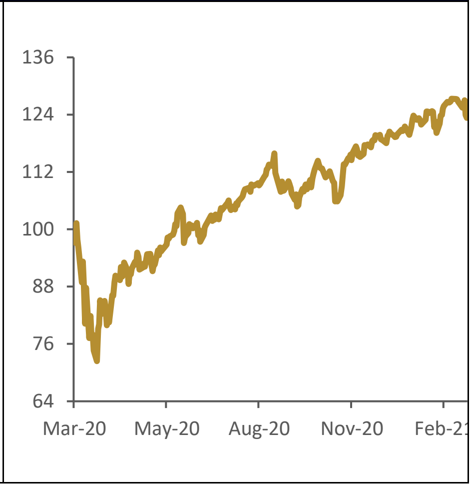
## US Inflation Rate



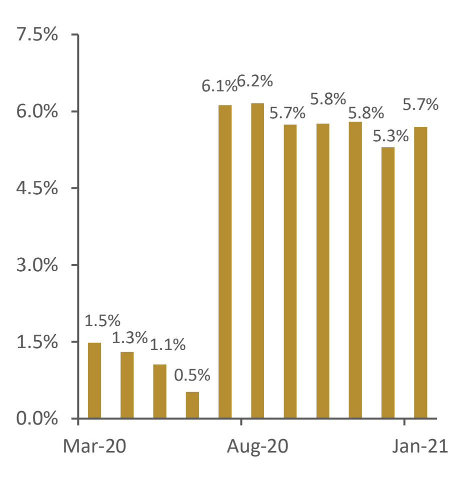

## US Unemployment Rate



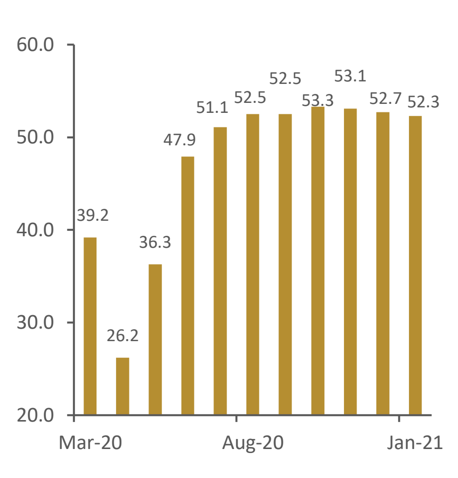

## S&P 500*



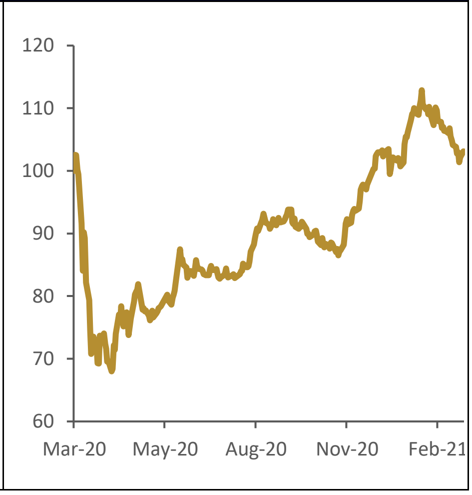

## Saudi Inflation



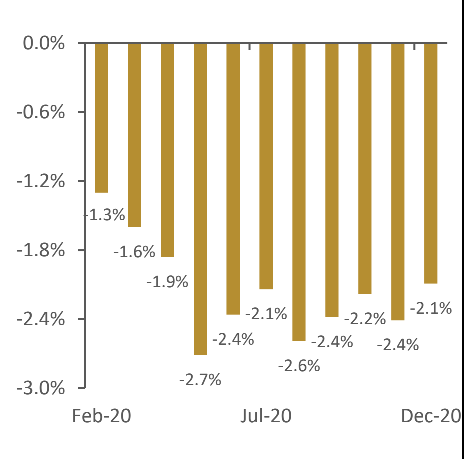

## JPM Global PMI



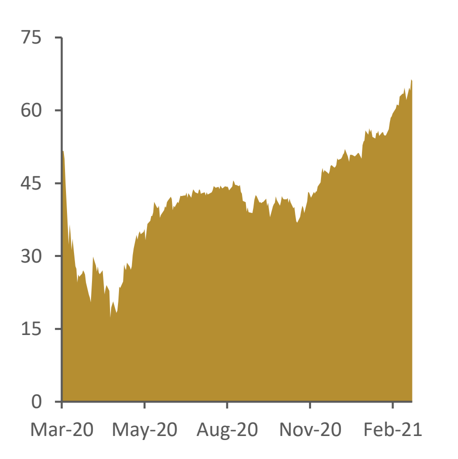

## DFM Index*



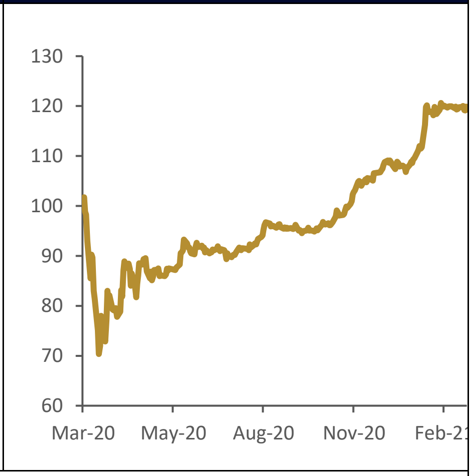

## UAE Inflation Rate




## Brent Oil Price Chart




## ADX Index*




All figures and charts across the report are sourced from Bloomberg and ADIB research. Data as on 28 February 2021

*rebased to 100 on 1 March 2020

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