Monthly Market Insights

April 2021

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Macro update – Renewed lockdowns hampers recovery

Asset Classes	Closing	MTD	YTD
S&P 500	3973	1.82%	7.36%
MSCI EM	1320	-1.48%	1.16%
MSCI World	2805	2.87%	5.06%
MSCI GCC	603	4.40%	9.67%
Oil	63.38	-1.63%	26.71%
Gold	1685	-2.82%	-13.26%
US Treasury Yield	1.740	34bps	83bps

Key Interest Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.202	1.7	-3.6
EURIBOR	-0.538	-0.5	0.8
TIBOR	0.069	-1.0	-1.0
SIBOR	0.796	-0.4	-2.0
EIBOR	0.396	6.0	-5.4
HIBOR	0.227	0.0	-10.4

Sovereign CDS	Closing	MTD (bps)	YTD (bps)
Abu Dhabi	50.3	3.7	11.9
Saudi Arabia	70.1	2.9	4.5
Kuwait	50.5	5.3	3.6
Bahrain	206.7	-28.3	-39.8
Oman	291.7	-43.3	-75.5
Turkey	475.1	158.1	171.2

Upcoming Key Event	
02.04.2021	US Unemployment Rate
08.04.2021	UAE CPI
15.04.2021	Turkey Central Bank Meeting
16.04.2021	China GDP 1Q21
29.04.2021	US GDP 1Q21

Contacts

Saif Al Alkeem
Head of Priority Banking, Wealth Management and Liabilities
saif@adib.com

Kais Dachraoui, PhD, FRM
Head of Investment Advisory
kais.dachraoui@adib.com

OVERVIEW

March started on a healthy note, as rapid vaccine rollouts worldwide and US fiscal plan to boost the economy dominated the market. This was reflected in developed market safe-haven debt which experienced a massive sell-off, lifting yields from their historic lows. The yield on 10-year Treasury hit a 14-month high to 1.77% on higher inflation expectation. Meanwhile, equity markets marked a mixed performance as investors weighed optimism around growth against inflation concerns. The investors vouched on Biden's mass ramp up in infrastructure spending. Moreover, major central banks commitment to keep benchmark interest rates unchanged, citing a rise in inflation would be only transitory, provided another tailwind. The Federal Reserve and Bank of England further maintained their monthly fixed income securities purchases ruling out any near-term tapering. On the contrary, the European Central Bank accelerated the pace of asset purchases for the coming months to contain rising yields but kept the size of its pandemic emergency package untouched. However, tensions over vaccine supplies exacerbated by the third wave of coronavirus induced stricter restrictions and extended lockdowns across several parts of the region, undermining Eurozone's economic recovery prospects.

MACRO BACKDROP

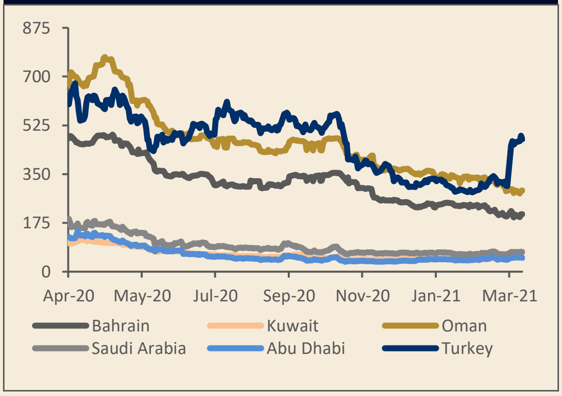
- The US economy remains on track despite some of the data reporting a temporary setback this month. February retail sales (-3.0%), industrial production (-2.2%), and housing starts (-10.3%) came in below expectation due to harsh weather conditions. The manufacturing sector, however, maintained a strong momentum as Markit PMI rose slightly to 59 in March. Also, weekly initial jobless claims for the week ended March 27, unexpectedly rose to 719k from 658k in the previous week, despite signs of labour market improvement.
- The Eurozone economy appeared to show some signs of life in March, despite rising infection caseloads. The flash factory PMI soaring to 62.4 from 57.9. Meanwhile, inflation jumped to 1.3%y/y in March from 0.9%y/y a month ago, reflecting a pick-up in energy and non-processed food prices.

KEY REGIONAL NEWS

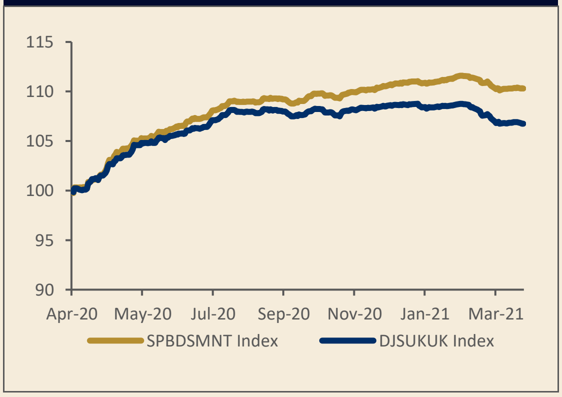
- The Kuwaiti government has proposed new amendments to the country's public debt law, including capping borrowing to a maximum of 60% of gross domestic product and removing the cap on maturity limit which was previously at 30 years. *Source: Kuwait Local*
- The Securities and Commodities Authority made an amendment requiring listed companies in UAE to have at least one woman director on their board. *Source: Reuters*
- OPEC+ and its allies have agreed to extend oil cuts in April. Also, Saudi Arabia will continue its voluntary oil cut of 1 million barrels per day. *Source: Reuters*
- Dubai launches 'Operation 300bn', to increase the industrial sector's contribution to GDP from AED133bn to AED300bn by 2031. *Source: Gulf Business*

Sukuk – Primary market loses traction as financing need to ease

Sovereign 5-year CDS spread movement

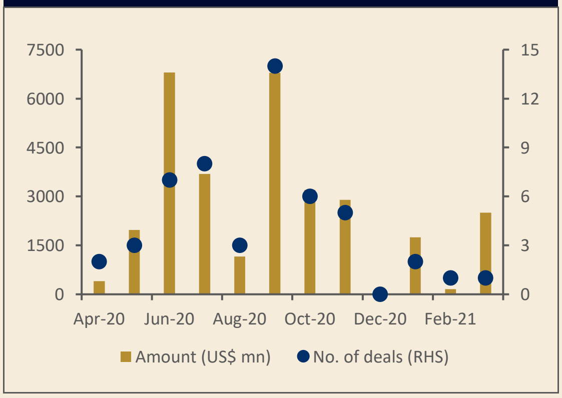


Sukuk index total return*



*rebased to 100 on 1 April 2020

Monthly Sukuk new issuance volume



Development in regional CDS market

Turkish investors sentiments witnessed a roller coaster ride in March. On March 18, 2021, the Central Bank of Turkey (CBT) raised the benchmark rate by a whopping 200bps to 19%, beating market expectation of 100bps to curb the rising inflation (15.6% in February 2020 vs. 14.9% in January). This strengthened the Turkish Lira (TRY) to 7.2/$. However, on March 20, 2021, Turkish President abruptly fired the central bank's chief and replaced him with banker Mustafa Duman who favoured lower rates. Consequently, TRY touched an all-time low of 8.5/$ and Turkey's 5-year CDS spreads widened drastically by 143bps MTD in March. In the GCC, the recovery in oil prices supported by demand uptick and extension of production cuts in April 2021 supported CDS spreads. Oman 5-year CDS spreads tightened the most by 49bps MTD followed by Bahrain (36bps MTD). While 5-year CDS spreads of Kuwait widened slightly by 5bps, Abu Dhabi by 4bps and Saudi Arabia by 3bps on an MTD basis.

A quiet Sukuk market; Airlines Sukuk performs well

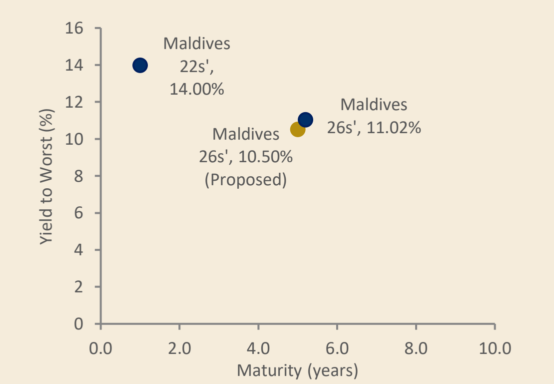
Both S&P Sukuk Mena and Dow Jones Sukuk indices were down marginally by 0.5% MTD and 0.6% MTD in March 2021. The Kingdom of Bahrain 27s' and Dubai Islamic Bank 22s' were the best performers with yield-to-worst (YTW) tightening by 12bp and 11bps, respectively. Also, airline Sukuk performed well with Etihad Airlines 21s' tightening by 12bps and Garuda 23s' by 9bps. On the contrary, Saudi Electric 44s' and Majid Al Futtaim 29s' were the worst performers, widening by 41bps and 38bps, respectively. In March 2021, Islamic Development Bank tapped the primary Sukuk market through its largest-ever Sukuk offering worth $2.5bn with a profit rate of 1.262% and maturing in 2026.

Key developments

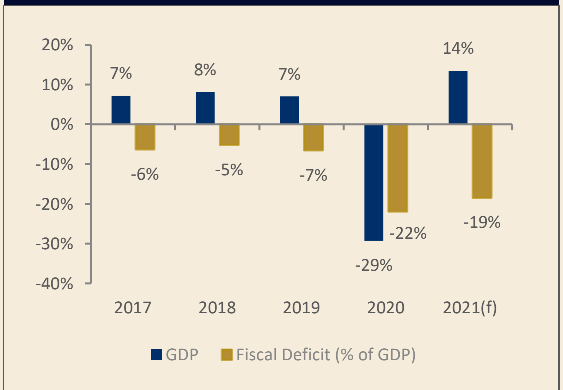
- After posting fifth consecutive annual loss in 2020, **Etihad Airways** is still targeting to **become profitable in 2023** despite shedding 33% of the workforce and **accelerating restructuring plans**.
- To diversify income amidst the depressed property sector in the UAE, **Aldar properties** has **offered to buy a majority stake in SODIC**, one of Egypt's leading real estate company.
- On March 26, 2021, **S&P affirms Saudi Arabia's 'A-/A-2 (Stable)' rating** citing Saudi's **economy to return to positive growth in 2021**, **fiscal deficit to narrow** and **current account to return to surplus** based on improving global macroeconomic conditions and oil prices.
- **DIFC recorded the best historical performance** with a **24% increase** in the number of **active companies to 915**.
- Abu Dhabi's **Mubadala** is **interested in buying NMC health care business**, the largest healthcare provider in the UAE. Other interested investors include Abu Dhabi state-owned holding company ADQ and Europe's largest private equity firm CVC.

Sukuk – Primary market loses traction as financing needs ease

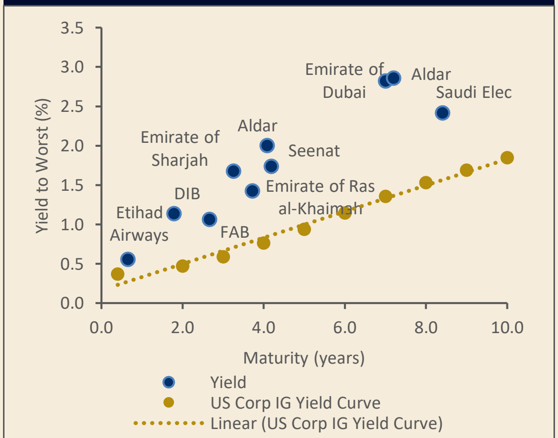
Proposed Sukuk is tighter than existing conventional fixed income securities



Maldives GDP vs. Fiscal Deficit



Sukuk vs. US Corp IG yield curve



Government of Maldives

- Maldives is a small island nation, having 90% of its territory covered in water. Tourism, fishing and shipping are the most important sectors of the economy. Tourism represents about 60% of GDP and around 90% of the government revenue comes from tourism and trade tariffs.
- Maldives closed its borders between March-July 2020 to control the spread of coronavirus pandemic. Tourist arrivals fell drastically by 67.4% y/y to 1.7mn in 2020. Consequently, real GDP declined by 52% in 2Q20. However, the drop moderated to 44.2% y/y in 3Q20 mirroring the opening of the country's borders. According to the ministry of finance, real GDP is estimated to have declined severely by 29.3% in 2020.
- Going forward, real GDP is projected to grow by 13.5% in 2021 as tourist arrivals increase. Moreover, Maldives is currently working on economic diversification through expanding the fisheries and agricultural sectors.
- The government has implemented substantial coronavirus relief measures worth MVR2.5bn (4.1% of GDP), resulting in the budget deficit soaring to 21.9% of GDP in 2020 from 6.6% in 2019. Moreover, with high reliance on external borrowing amidst a material decline in tourism receipts and continued debt-funded infrastructure spending, the debt to GDP ratio almost doubled to 115% in 2020 from 62% in 2019. The government forecast the ratio to reach 124% in 2021, as it continues to borrow to cover the fiscal gap. Nevertheless, the government highlights the possibility of debt reduction in the medium term by boosting GDP.
- Maldives has been successful in securing new external financing and also receiving support from international communities through bilateral and multilateral financing. As of February 2021, gross international reserves stood at $855.7mn, which are sufficient to cover debt servicing obligations worth $142mn and contingent liabilities related to servicing of government-guaranteed debt worth $277mn in 2021.
- Moreover, the government has no foreign marketable debt falling due until June 2022, when its outstanding $250mn international fixed security matures.
- Maldives is making a debut in the capital market by issuing a five-year Sukuk worth $200mn. The Sukuk was rated B3 by Moody's and the settlement of the issue will be on April 8, 2021. The proceeds from the Sukuk will be utilised in part to fund the tender offer for outstanding $250mn fixed security maturing in June 2022 and the remainder to fund development projects.
- According to Bloomberg data, the proposed Sukuk is expected to offer a coupon of 9.875% with a YTW of 10.5%, which is tighter than the existing 5.5% 2026s YTW of 11.02%. Given the reflation trade and rotation to pandemic hit sectors amid the possibility of reopening of the economy, we see room for tightening. Also, the higher coupon should provide a cushion against interest rate and duration risks.
- Key risks: subdued recovery in tourism activities; high twin deficit and elevated government debt level; challenging external financing conditions; and high environment as well as climate change risks.

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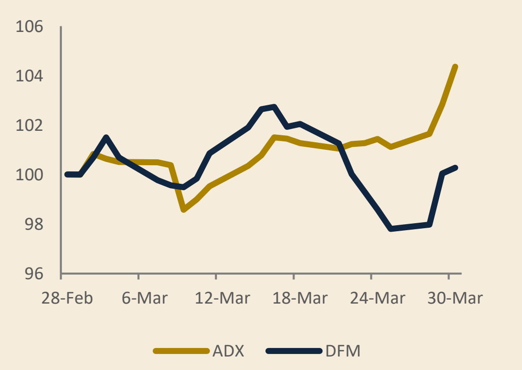
UAE Equities – Building momentum, with recovery in key sectors

Regional index movement*



*Rebased to 100 on February 28

DFM top five gainers and losers

Gainers	MTD	Losers	MTD
DRC	20.0%	ERC	-53.3%
AMLAK	17.3%	TAKAFULE	-10.3%
ALRAMZ	14.4%	DNIR	-8.9%
DIC	10.1%	EMAARDEV	-6.5%
SALAMA	5.8%	DIB	-5.2%

ADX top five gainers and losers

Gainers	MTD	Losers	MTD
IHC	34.5%	PALMS	-14.5%
BILDCO	22.9%	ADSB	-13.5%
UAB	21.7%	AWNIC	-10.0%
DANA	16.6%	RAKWCT	-10.0%
NBQ	14.9%	RAPCO	-9.7%

Abu Dhabi: Best performing regional market YTD

Global equities gained during Mar'21 (as on Mar 30), despite continued high volatility, as optimism over another stimulus in the US, vaccinations progress, and FOMC's projected status quo on policy rates until 2023 offset the growing worries over rising treasury yields, inflation, and risk of re-imposition of lockdown measures in some parts across the globe. The UAE equities also closed higher; however, most of the buying momentum was seen in the Abu Dhabi stocks (ADX: +4.4%) while the DFM index was up only 0.3%. We believe steadily rising oil prices, likely economic recovery, and renewed strong foreign buying (+AED85mn in March) supported Abu Dhabi equities during the month. On the other hand, extended delay in the resumption of international travel across the globe, rising interest rates and continued FIIs selling (-AED102mn) kept the Dubai equities in the range. On sectoral basis, Investment & Financial Services (+31.0% for ADX, +6.9% for DFM) led the gainers pack followed by Energy (+10.6% for ADX), Telecommunication (+6.2% for ADX, +3.7% for DFM) and Real Estate (+3.3% for ADX), however, the Banking sector continued to decline (-0.6% for ADX, -0.8% for DFM). The Banking sector is witnessing pressure on rising concerns over asset quality due to the pandemic. At stocks levels, ETISALAT (+6.2%), DU (+3.7%), ALDAR (+3.6%) and EMIRATES NBD (+3.1%) led the gainers. The ADX average daily volume declined by 9.5% MoM to 147.5mn and volumes decreased 7.6% MoM to 102.8mn on the DFM. For ADX, since the last two months, the index is highly range bounded in between 5,770 – 5,593. Resistance levels are – 6,000, 6,230 & 6,460. Support levels are – 5,573, 5,490 & 5,256. For DFM, the index has faced resistance at 2,807 and started to trade below 50- and 100-SMAs; however, the index is trading above 200-SMA. Support levels are – 2,389, 2,410 & 2,130.

Most read regional company headlines

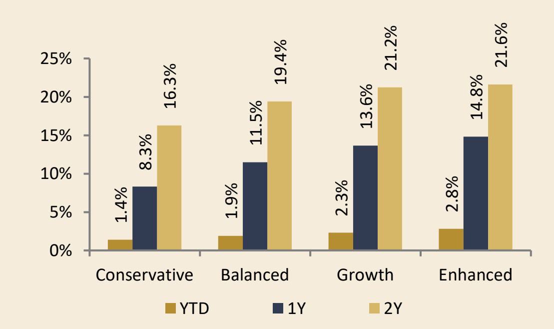
ADCB	ADCB acquires $308mn mortgage portfolio
EMAAR	Emaar Properties to restart paying dividend
DAMAC	DAMAC Properties mulls increasing stake in DAMAC Int. Ltd
TABREED	Tabreed ties up with IFC to invest in Asian markets
TAQA	TAQA plans to expand its renewables portfolio
TABREED	Tabreed CEO hints at imminent acquisitions

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	5,910.66	4.4	17.2	230.2	157.5	251.1	23.0	1.6	4.6
Dubai	2,558.50	0.3	2.7	75.5	91.4	42.5	21.0	0.9	3.2
Saudi Arabia	9,635.34	5.4	10.9	2,496.3	282.9	2,462.7	36.6	2.3	2.5
Kuwait (All shares)	5,735.76	1.5	3.4	108.1	189.9	114.7	40.2	1.4	3.0
Oman	3,681.38	1.9	0.6	11.7	13.6	4.3	12.1	0.7	5.7
Bahrain	1,454.40	-0.8	-2.4	22.3	1.3	0.5	37.3	1.0	4.1
Qatar	10,381.30	2.3	-0.5	146.4	87.0	80.9	19.3	1.5	2.8

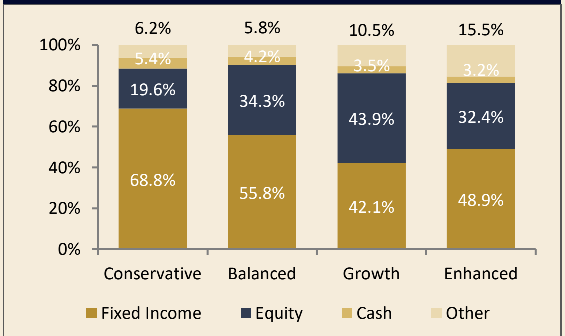
Mutual funds' – Global markets adjusting to rising treasury yields

ADIB Khuttati Plan* (Returns Composition)



*Returns closing as on March 03, 2021

ADIB Khuttati Plan (Fund Allocation)



Global equity funds regaining momentum

- From our coverage of 31 funds, 13 funds closed in the green on MTD basis (as of Mar 30) mostly from the equity category driven by renewed buying into equities as investors' shifted focus to expected higher demand recovery post vaccinations amid continued favourable fiscal and monetary policy responses, however, concerns over rising treasury yields capped the gains.
- Comgest Growth Europe S "EUR" (EUR) ACC (+5.6% MTD) was the standout performer from our fund's coverage. The positive performance was mainly attributed to the high investment allocation to the Information Technology, Health Care and Consumer Discretionary sectors which performed well.
- Mashreq Al-Islami Income Fund declined (-0.9% MTD). The underperformance can be attributed to the rising treasury yields.

ADIB Khuttati Plan

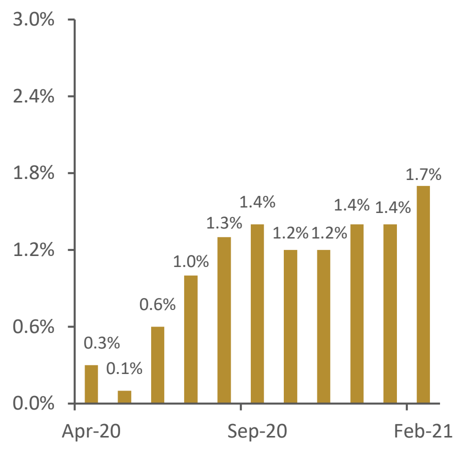
ADIB Khuttati Plan, a multi-asset class saving and investment plan, is bundled with benefits such as transparency, customization, flexibility, and affordability. The plan offers four broad risk options: conservative, balanced, growth and enhanced, enabling investors to achieve their long-term financial objectives within their risk appetite. Under these plans, investment is allocated into three key category choices including Fixed Income Global, Equity Global and Equity Europe, although weights vary across plans in commensurate with the investment policy statement. In terms of return, the Enhanced plan has generated the highest return of 14.8% during the last 1 year followed by growth (+13.6%), balanced (+11.5%), and conservative (+8.3%). In comparison to the benchmark, the Enhanced plan has also earned the healthy excess return of 5.2% while other plans provided excess return in the range of 2.5-3.0%. The outperformance of Enhanced plan can be attributed to the higher exposure to equities with notable allocation towards IT sector which likely performed better than fixed income and other sectors, respectively.

List of mutual funds

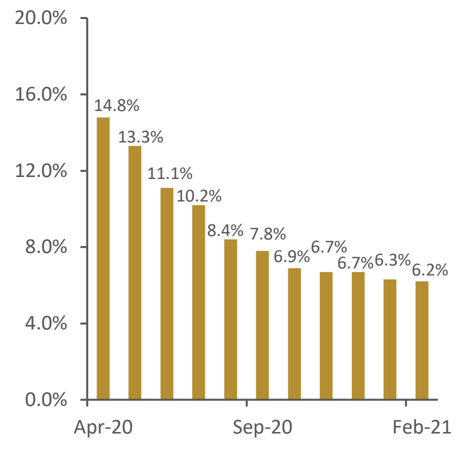
Fund names	ISIN	NAV	Currency	MTD	YTD
Comgest Growth Europe S	IE00B4ZJ4634	30.43	EUR	5.59%	4.32%
AlAhli Saudi Trading Equity Fu	AFB007482007	11.79	SAR	4.72%	8.23%
Old Mutual Global Islamic Equi	IE00BYMM2054	15.23	USD	4.67%	9.49%
AlAhli GCC Trading Equity Fund	AFB007482106	1.16	SAR	4.37%	6.52%
AlAhli North America Index Fun	AFB007013901	6.87	USD	3.07%	3.59%
Templeton Shariah Global Equit	LU0792757196	15.17	USD	2.64%	6.76%
Franklin Global Sukuk Fund	LU0923115892	13.55	EUR	2.57%	3.75%
Emirates Global Sukuk Fund Ltd	JE00B5V8LK49	15.72	EUR	2.52%	4.25%
Emirates NBD SICAV - Mena Oppo	LU1060357412	12.24	USD	2.48%	4.74%
Comgest Growth Europe S	IE00B3ZL9H82	26.82	USD	2.29%	0.26%
Emirates NBD SICAV - Mena Oppo	LU1654397329	10.15	USD	2.22%	3.36%

Monthly Market Insights

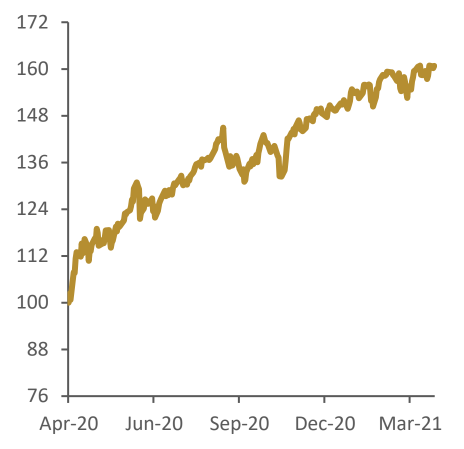
US Inflation Rate



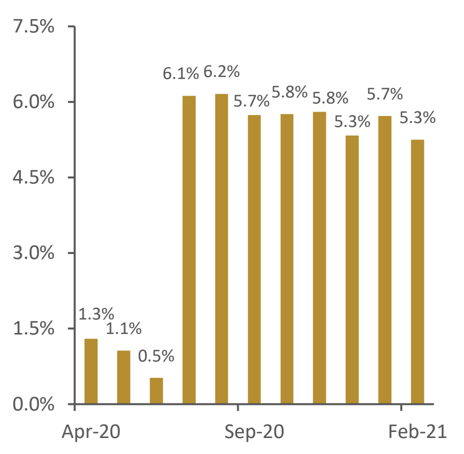
US Unemployment Rate



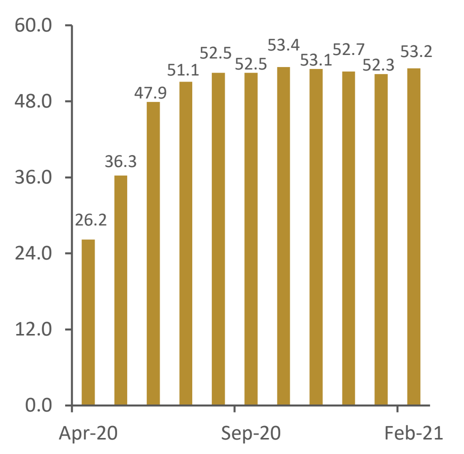
S&P 500*



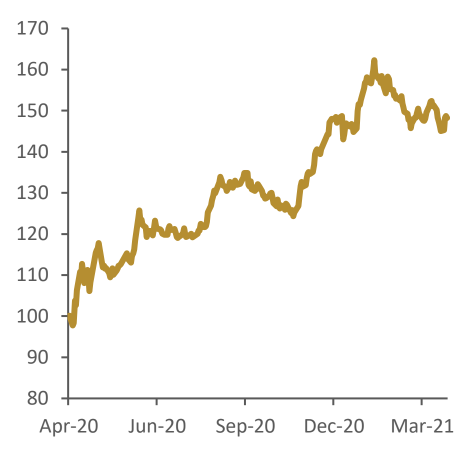
Saudi Inflation



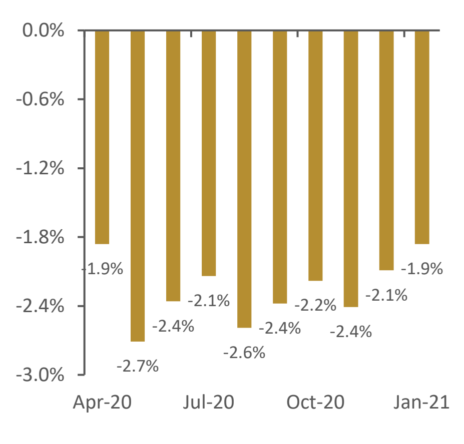
JPM Global PMI



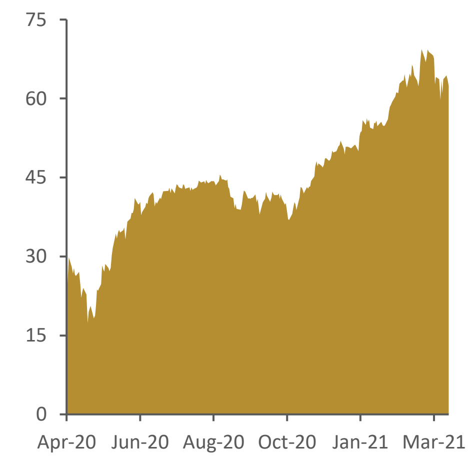
DFM Index*



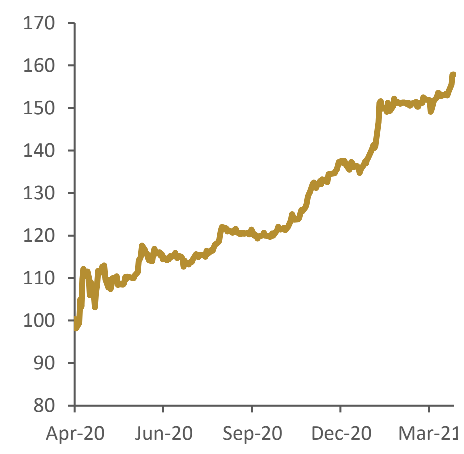
UAE Inflation Rate



Brent Oil Price Chart



ADI Index*



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

*rebased to 100 on 1 April 2020

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