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MENA MARKETS REVIEW

HIGHLIGHTS

- US equities reach new highs on continued support from Trump's tax plan and the Fed leaves rates unchanged
- ECB leaves rates unchanged and BoE raises rates for the first time in a decade
- EM equities outperform global equities on a YTD basis up 29.8%
- Brent prices exceed \$60pb mark for the first time in more than two years
- Qatar's equity market continues to suffer down 22% YTD while Kuwait is the leader up 10.5% YTD
- Most GCC equity markets down in October despite rising oil prices

INTERNATIONAL: GLOBAL GROWTH PROSPECTS IMPROVE, WHILE INFLATION REMAINS SOFT

As the outlook for global growth continued to improve, central banks in advanced economies proceeded with policy normalization despite persistently soft inflation. Economic activity appeared more robust in recent months across most major economies, particularly in the US and the Eurozone. In the US, growth was bolstered by the promise of a fiscal boost from the GOP's planned tax cuts. As a result, equities continued to record new highs. Yet, despite the robust growth, inflation has failed to gain further momentum in recent months. The softer inflation has not, however, derailed or changed central banks' normalization plans.

Economic conditions in the US further appear broadly robust, with signs that GDP growth is set to pick up pace in 4Q17. GDP growth was solid in 3Q17, at an annualized 3% q/q and rising to 2.3% y/y. The Atlanta Fed's GDPNow forecast now sees growth in 4Q17 at an annualized 4.5%, implying y/y growth of nearly 3%. A number of leading indicators have been particularly strong, including capital goods orders and the ISM manufacturing index. They tell a story of increased optimism and rising investment. The labor market has also continued to tighten. The latest employment report showed 261,000 new jobs in October and the unemployment rate fell to a 17-year low of 4.1%.

Some of the buoyancy in the US economy has come from the prospect of a fiscal boost from President Trump's tax reform plans. Since Donald Trump's election a year ago, markets have been excited over some of his economic proposals. While there have been some concerns that his agenda has seen few legislative wins, the tone has changed in recent weeks particularly in regards to tax reform. Of course, markets anticipate a healthy fiscal stimulus from such legislation in addition to the promise of improved business conditions for companies over the long term. Indeed, GOP legislators in the lower house recently unveiled a comprehensive tax plan, which Trump could sign into law this year or early next year.

Despite the strength in economic activity, inflation has stubbornly failed to gain traction. Wage growth in October was disappointing. Growth of employee

wages slipped to 2.3% y/y in October after two months of stronger figures. Core inflation also came in below expectations in September. Core prices rose by just 0.1% m/m, though the annual pace was steady at 1.7% y/y. Inflation in the PCE deflator, a key focus of the Fed, was also subdued in September.

The Fed has hinted that soft inflation is unlikely to derail its normalization of monetary policy. Analysts initially feared that softer inflation might prevent the Fed from raising rates in December. Markets are now nearly certain of a hike in December. While this change is driven in part by clear signs of robust growth, the Fed has also made it clear it is not likely to be swayed by the softer price data. While the market has shifted to being more certain on a December hike, the consensus remains for 2-3 hikes in the next 12 months, implying just 1-2 hikes in 2018. This remains somewhat less optimistic than the Fed's own median projections of three 25bp hikes in 2018. Meanwhile, the White House's choice of Jerome Powell to lead the Fed, starting in February 2018, has assured analysts that monetary policy is likely to be broadly unchanged after current Fed Chair Janet Yellen completes her term.

Economic activity in the Eurozone has continued to do well, though inflation has not kept pace there either. The economic figures have broadly been surprising to the upside. Industrial production, PMI and GDP growth have all continued on the firm side in recent months. Indeed, the IMF, once again, upped the Eurozone's GDP forecast in its September World Economic Outlook (WEO). Still, and just as in the US, inflation has remained relatively weak; core inflation in October stood at 0.9% y/y, well below the 2% target, with little sign of momentum.

Despite downbeat inflation, the stronger economy has seen the ECB move to wind down its QE program. The European Central Bank announced it plans to reduce the size of its asset purchase program starting in January 2018 through at least September 2018. The bank will now be buying around €30 billion a month, down from €60 billion. The move, which was broadly expected, points to the ECB's confidence in the economic recovery, but also indicates that ending QE is going to be gradual, especially in view of the weakness in inflation.

The Japanese economy maintained a healthy pace of growth, with the outlook bolstered by Shinzo Abe's strong showing in the recent election. With Abe clinching a large majority, the PM has strengthened his hand in his efforts to reform the economy and maintain support for the recovery. The IMF revised its growth forecast for Japan in its latest WEO to 1.5% in 2017, though that pace is not expected to be maintained in 2018. Growth is expected to halve to 0.7% in 2018. With inflation still weak, there is no indication that Japan is even thinking of unwinding its own QE program anytime soon.

Emerging markets continue to recover, with the pace improving in some key economies. The IMF expects growth in emerging and developing economies to improve to 4.6-4.9% in 2017 and 2018. In most regions, including China, projections have remained steady. China's growth has surprised slightly on the upside, with the IMF seeing growth at 6.8% in 2017, though China will continue to see a moderating trend going forward. At the same time, growth in some markets, including commodity driven Brazil and Russia, and developing Europe, has been more resilient than previously expected.

The global economy has not looked better than it does today in a long time, and this has supported the price of oil. Brent rose past \$60 per barrel in October; it is now approximately 40% above the low registered in June 2017. Oil prices were also bolstered by recent talk of a further extension of production cuts by OPEC and some non-OPEC countries, and by some recent tensions in the Gulf region. Nonetheless, the recovery in oil prices should be held back by the resilience of US shale oil production and prices are not expected to maintain levels above \$70 in the near term to medium term.

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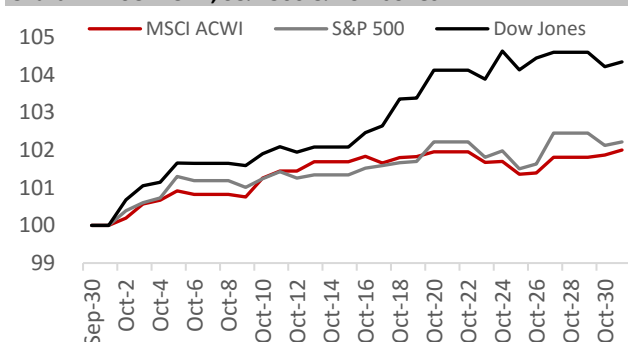
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GLOBAL EQUITIES

Global equities remain in the green, posting a gain of 2.0% in October, as measured by the MSCI All Country World Index. US equities continue their positive streak for the seventh month, up 2.2% and 4.3% for the S&P 500 and Dow Jones, respectively. The progress of President Trump's tax plan contributed to US equity markets reaching new highs. The tax plan could potentially boost economic growth as well as widen the fiscal deficit. Following the FOMC meeting last week, the Federal Reserve did not raise rates, yet upgraded economic activity from "rising moderately" to "rising at a solid rate", further supporting a December rate hike.

Chart 1 : MSCI ACWI, S&P 500 & Dow Jones



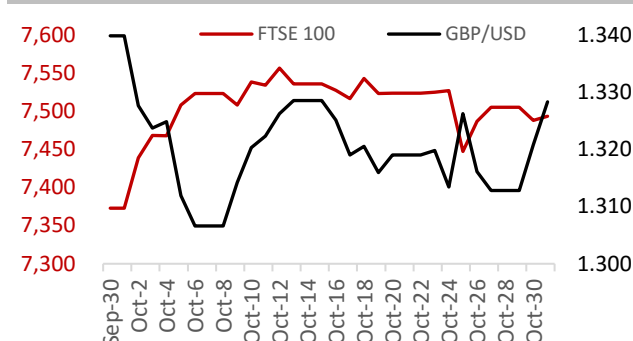
Source: Bloomberg (figures rebased)

In Europe, the Stoxx Europe 600 ended the month in the green 1.8% despite the political unrest in Spain. The IBEX 35 fell 1.45% the day Catalonia's parliament declared independence and the central government imposed direct rule yet the index recovered by month end. Following the ECB's latest monetary policy meeting, rates remained unchanged, as expected, and extended the asset purchase program by 9 months. However, they did reduce the monthly purchasing pace to EUR 30 billion from January to September 2018. Following the announcement, the euro dropped to a 3-month low, down 1% to \$1.16.

The United Kingdom's equity market recovered in October following last month's loss, up 1.6%, as measured by the FTSE 100. The Bank of England raised interest rates, following its latest Monetary Policy Committee, for the first time in a decade from 0.25% to 0.5%. Brexit negotiations continue to progress as EU leaders have indicated they might initiate talks on a

trade deal in December. However, this is contingent on issues surrounding the UK's 'leaving bill' being addressed.

Chart 2: FTSE 100 & GBP

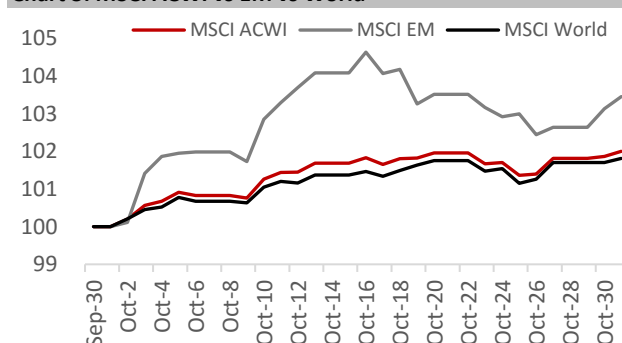


Source: Bloomberg

Japan's Nikkei 225 posted strong gains in October, ending the month up 8.1%. Prime Minister Shinzo Abe and his Liberal Democratic Party won the elections with a two-thirds 'super majority' in the lower house. As a result, expectations are that large-scale monetary easing and fiscal stimulus will continue.

The MSCI EM Index posted a gain of 3.5% in October, recovering from last month's loss. This has brought the Index's year to date return up to 29.8%, the highest among global indices. Supported by global financial conditions, these markets are advancing on stronger fundamentals and an increase in exports and capital spending.

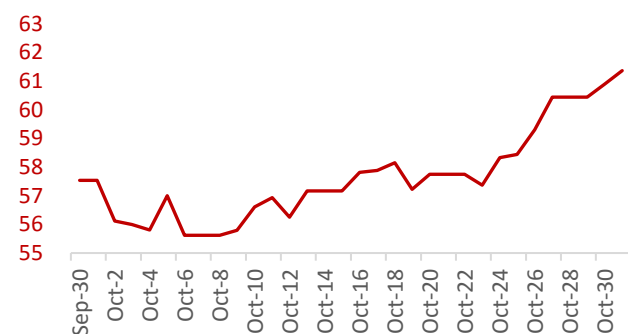
Chart 3: MSCI ACWI vs EM vs World



Source: Bloomberg (figures rebased & MSCI World represents developed markets only)

Brent ended the month at \$61.37, bringing its gains year to date to 8.0% and month to date to 6.6%. Brent prices exceeded the \$60pb mark this month for the first time in more than two years and are now

significantly higher than the 2017 low of \$44.82. Global demand remains firm with various OPEC officials indicating an extension of the output cuts beyond March 2018; reducing the likelihood of new oil supply flooding the market. Further supporting oil prices is the geopolitical risk emerging from the issues between Iraq's central government and the Kurdish Regional Government.

Chart 4: Oil Prices – USD per Barrel (Brent)


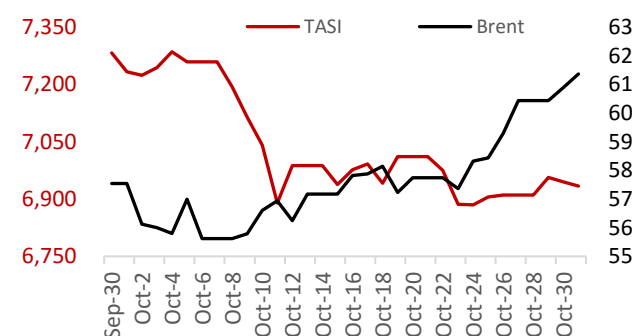
Source: Bloomberg

REGIONAL EQUITIES

GCC equities continued to register negative returns in October, down 2.8% as measured by the S&P GCC Index despite rising oil prices. This has brought the year to date return down to -1.5%. Most of the GCC equity markets were in the red this month with the exception of Dubai and Abu Dhabi. MENA equities, as measured by the S&P Pan Arab Composite Index, deteriorated further in October, down 2.3% bringing the year to date return to -1.4%.

The Tadawul All Share Index (TASI) was the worst performing among the GCC equity markets, posting a loss of 4.8% in October. During the Future Investment Initiative conference in Riyadh, Saudi officials announced that the Public Investment Fund plans to double their assets under management from around \$230 billion to \$400 billion by 2020. The Saudi Crown Prince Mohammed Bin Salman also announced the development of "NEOM", a \$500 billion mega-city in the North West region of the Saudi Arabia. The aim of the project is to serve as a global industrial hub and destination for innovation sectors, which would also connect Jordan and Egypt. The Saudi Finance Minister,

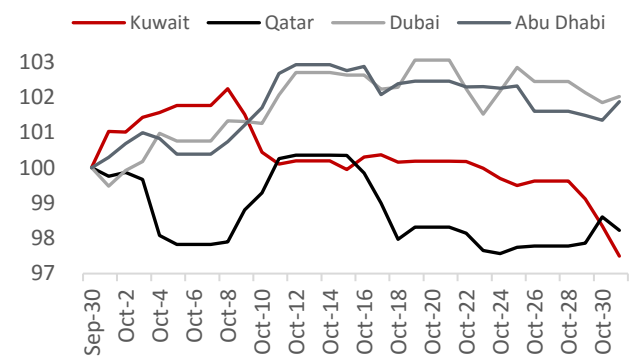
Mohammed Al-Jadaan, also announced that the government plans to increase spending in 2018 to support the economy and will therefore raise the budget ceiling next year. The aim to balance the budget by 2020 remains as is. S&P has left Saudi's credit rating unchanged at A- with a stable outlook, supported by expectations of further fiscal adjustment. This month the Saudi government also sold domestic sukuk over three tranches worth 10 billion riyals maturing in five, seven, and ten years.

Chart 5: TASI & Brent


Source: Bloomberg

The Kuwait Weighted Index registered a loss in October, of 2.5%. On a year to date basis however, Kuwait's equity market remains positive at 10.5%, the highest among its GCC peers. Kuwait's stock market experienced some profit-taking following the news of the FTSE upgrade and Omantel increasing its holding in Zain by an additional 12%. The Kuwait Stock Exchange also announced the closing of its futures market and its intention to establish a new and full functioning derivatives market in 2018.

The Qatar Exchange Index ended the month of October in the red 1.8%. Although negative, this was a slight improvement from September's performance of -5.6% supported by local buying. On a year to date basis, the Index has dropped 21.8%, the lowest among the GCC equity market indices. The dispute between Qatar and its GCC neighbors continues to put pressure on their banking sector. Monetary data from the Central Bank of Qatar indicates continued non-resident outflows, which the government continues to offset by injecting deposits into the banking system.

Chart 6: Performance of Kuwait, Qatar, Dubai & Abu Dhabi


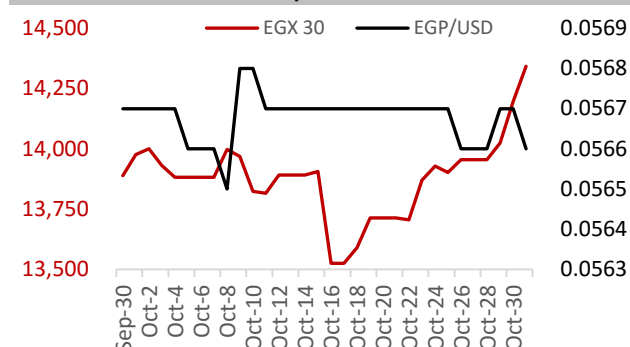
Source: Bloomberg (figures rebased)

Dubai and Abu Dhabi's equity markets were the best performers in the region in October, with the DFMGI Index in the lead up 2.0% and ADSMI Index up 1.9%. Real GDP growth in Dubai slowed slightly to 3.2% year over year in Q1 2017 from 3.9% year over year in Q4 2016 due to stagnant external demand in the trade sector. However, as tourism and construction (Expo 2020) pick up throughout the year, expectations are GDP will improve as well. In Abu Dhabi, the Securities Exchange has introduced technical short selling, in an effort to increase liquidity and attract foreign investors. Abu Dhabi also successfully sold a multi-tranche international bond worth \$10 billion.

Bahrain Bourse All Share Index ended the month slightly in the red 0.5% in October. Recent data reveals real GDP easing slightly from 3.5% year over year in Q1 2017 to 3.3% year over year in Q2 2017, due to continued decline in oil sector activity. Non-oil growth remained stable at 4.3% year over year on the back of strong gains in the transportation & communication, hospitality and trade segments. The key factor is strong project activity, which is receiving finance via the Gulf Development Program. This entails a \$10 billion, 10-year package of grants from the Gulf countries.

Oman's MSM 30 Index registered a loss for the month, down 2.5%. Oman's budget deficit has reached OMR 2.8 billion year to date in August. At this rate, it will surely surpass the budgeted OMR 3 billion financing gap for 2017. Inflation will likely rise as well, as the government implements new tax measures. On a positive note, the GCC dispute has allowed Oman to benefit from trade diverted through its borders.

Egypt's EGX 30 Index continues to register gains in October, up 3.3%. The central bank's foreign reserves increased slightly to \$36.5 billion in September. The central bank also announced its plans to increase the required reserve ratio from 10% to 14%. Furthermore, the government also signed agreements to fund development projects with the European Union for approximately EUR 500 m over the next three years.

Chart 7: EGX 30 Index & EGP/USD


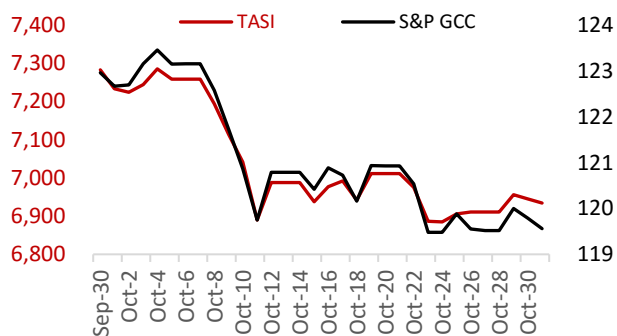
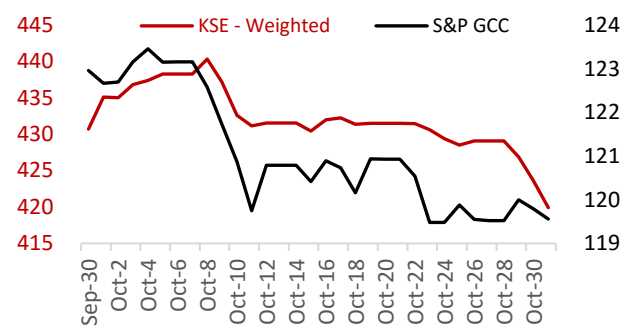
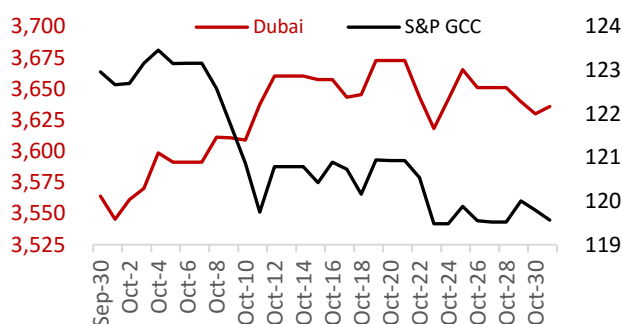
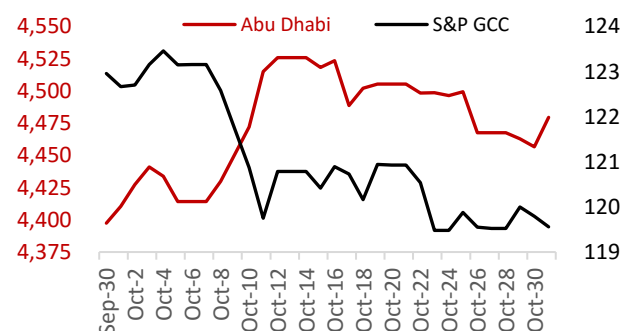
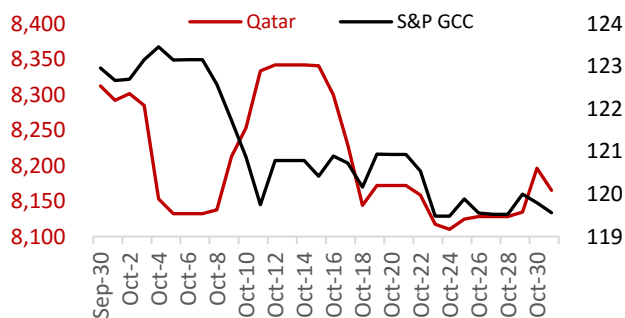
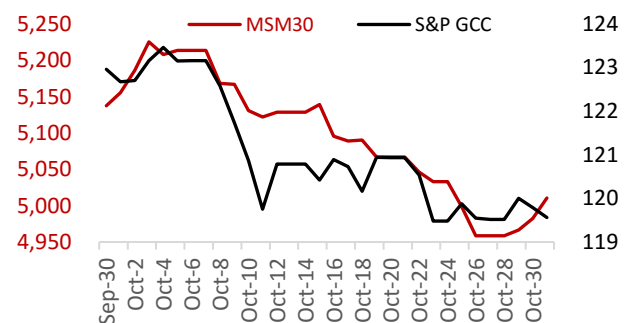
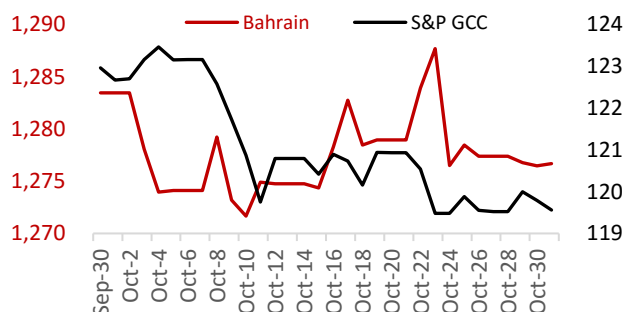
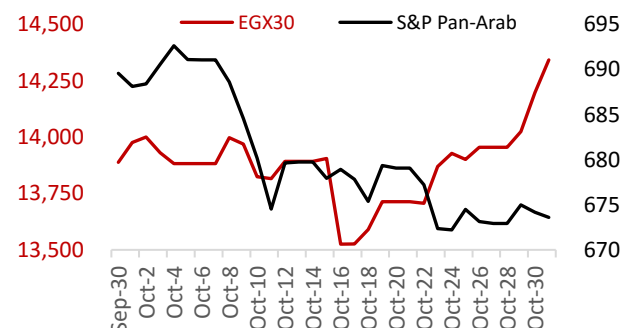
Source: Bloomberg

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Stock Market Performance – as of October 31, 2017:
Saudi Arabia

Kuwait

Dubai

Abu Dhabi

Qatar

Oman

Bahrain

Egypt


All indices are in local currencies, except for the S&P GCC and S&P Pan Arab, both of which are denominated in USD.

Market Data – as of October 31, 2017:

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	496.62	2.00%	2.00%	17.73%	20.83%
MSCI EAFE (USD)	2,002.54	1.46%	1.46%	18.92%	20.22%
MSCI EM (USD)	1,119.08	3.45%	3.45%	29.78%	23.64%
US					
S&P 500 Index	2,575.26	2.22%	2.22%	15.03%	21.12%
Dow Jones Industrial Average	23,377.24	4.34%	4.34%	18.29%	28.85%
NASDAQ Composite Index	6,727.67	3.57%	3.57%	24.98%	29.65%
Russell 2000 Index	1,502.77	0.80%	0.80%	10.73%	26.14%
Developed					
Stoxx Europe 600	395.22	1.82%	1.82%	9.35%	16.59%
FTSE 100 Index	7,493.08	1.63%	1.63%	4.90%	7.75%
DAX Index	13,229.57	3.12%	3.12%	15.23%	24.05%
CAC 40 Index	5,503.29	3.25%	3.25%	13.18%	22.04%
Nikkei 225	22,011.61	8.13%	8.13%	15.16%	26.32%
Hang Seng Index	28,245.54	2.51%	2.51%	28.39%	23.16%
Emerging Markets					
Russia Stock Exchange	2,064.31	-0.62%	-0.62%	-7.54%	3.75%
Turkey - Borsa Istanbul 100 Index	110,142.60	7.03%	7.03%	40.96%	40.24%
MSCI Asia ex Japan	691.96	4.69%	4.69%	34.53%	27.57%
Shanghai Composite	3,393.34	1.33%	1.33%	9.33%	9.45%
India - NIFTY 50	10,335.30	5.59%	5.59%	26.26%	19.82%
Taiwan Stock Exchange	10,793.80	4.49%	4.49%	16.65%	16.19%
Brazil Ibovespa Index	74,308.49	0.02%	0.02%	23.38%	14.45%
Mexico Stock Exchange	48,625.53	-3.42%	-3.42%	6.53%	1.28%
MENA					
S&P Pan Arab (USD)	673.60	-2.32%	-2.32%	-1.36%	8.34%
S&P GCC Composite (USD)	119.56	-2.77%	-2.77%	-1.77%	9.68%
KSA - Tadawul All Share Index	6,934.37	-4.79%	-4.79%	-3.83%	15.34%
Dubai - DFM General Index	3,635.87	2.02%	2.02%	2.97%	9.11%
Abu Dhabi - ADX General Index	4,479.60	1.87%	1.87%	-1.47%	4.17%
Qatar Exchange Index	8,165.06	-1.77%	-1.77%	-21.77%	-19.74%
Kuwait Weighted Index	419.91	-2.51%	-2.51%	10.48%	18.61%
Oman - Muscat Securities Market 30 Index	5,010.66	-2.47%	-2.47%	-13.35%	-8.59%
Bahrain Bourse All Share Index	1,276.69	-0.53%	-0.53%	4.61%	11.13%
Egypt - EGX 30	14,342.38	3.27%	3.27%	16.18%	71.03%
Morocco - MADEX	10,088.74	2.14%	2.14%	5.67%	16.59%
Jordan - ASE Index	2,093.19	-1.34%	-1.34%	-3.55%	-0.68%

*All Indices are in local currency, unless otherwise noted.

Source: Bloomberg

Market Data – as of October 31, 2017:

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	562.52	-0.29%	-0.29%	5.65%	1.33%
Barclays US Agg Bond	2,039.64	0.06%	0.06%	3.20%	0.90%
Bloomberg US Gov Bond Index	126.20	-0.10%	-0.10%	2.15%	-0.61%
Bloomberg Barclays US Corp Bond Index	2,879.74	0.40%	0.40%	5.61%	3.46%
Bloomberg Barclays US Corp High Yield Bond Index	1,949.07	0.42%	0.42%	7.45%	8.92%
Bloomberg Global Dev Gov Bond Index ex - US (USD)	107.94	-0.71%	-0.71%	6.84%	-0.58%
Bloomberg Global Corp Bond Index ex US (USD)	133.45	0.01%	0.01%	7.68%	4.73%
JPM Emerging Market Bond Index (USD)	805.04	0.18%	0.18%	8.92%	5.89%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,311.85	0.64%	0.64%	9.57%	8.67%
US Treasury Yields (%)	Current	3 M ago		6 M ago	12 M ago
3 Month Yield	1.131	1.067		0.874	0.299
2 Year Yield	1.600	1.359		1.306	0.841
5 Year Yield	2.017	1.826		1.887	1.307
10 Year Yield	2.379	2.271		2.354	1.826
30 Year Yield	2.879	2.856		2.998	2.580
Global Treasury Yields (%)	Current	3 M ago		6 M ago	12 M ago
British 10 Year Gilt	1.332	1.236		1.116	1.245
German 10 Year Bund	0.363	0.486		0.394	0.163
Japan 10 Year Treasury	0.071	0.078		0.021	-0.048

Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,271.45	-0.65%	-0.65%	10.80%	-0.45%
Silver Spot	16.72	0.38%	0.38%	4.96%	-6.66%
Energy					
WTI Crude	54.38	5.24%	5.24%	1.23%	16.05%
Brent Crude	61.37	6.66%	6.66%	8.01%	27.06%
Natural Gas	2.90	-3.69%	-3.69%	-22.23%	-4.30%

Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.1646	-1.42%	-1.42%	10.74%	6.06%
GBP-USD X-RATE	1.3283	-0.86%	-0.86%	7.64%	8.50%
USD-JPY X-RATE	113.6400	1.00%	1.00%	-2.84%	8.41%
KWD-USD X-RATE	3.3041	-0.21%	-0.21%	0.98%	0.13%

Interbank Rates (%)		1M	3M	6M	12M
London Interbank		1.243	1.381	1.575	1.848
Saudi Interbank		1.464	1.791	2.046	2.244
Emirates Interbank		1.318	1.574	1.815	2.210
Qatar Interbank		2.234	2.453	2.622	2.941
Kuwait Interbank		1.563	1.813	2.000	2.313

Source: Bloomberg

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