ISSUE 014

DECEMBER 2017

MENA MARKETS REVIEW

HIGHLIGHTS

- Trump’s newly passed tax cuts promise impetus for the US economy
- The Federal Reserve hikes up rates, while the ECB and BOE keep rates unchanged
- Brent Oil ended the month on a positive note, bringing the full year performance up 17.7%
- KSA, Kuwait and Bahrain markets close the year in the green, while other GCC markets were unable to recover from losses sustained through the year
- The World Bank approved a $1.15 billion development policy loan to support Egypt’s economic reform programs

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INTERNATIONAL: GLOBAL ECONOMY KICKS OFF 2018 IN STRONG FORM, THOUGH RISKS REMAIN

The global economy entered 2018 in strong form, with several major economies experiencing solid improvement in activity in recent months. Tax cuts in the US promise to give further impetus to an economy that had already been performing well. In the eurozone, the recovery continued to appear robust, with data surprising to the upside. Japan, too, has seen positive developments, while China and other emerging market economies have maintained steady or improving outlooks. In this environment, equities have continued to do well, with indices hitting new highs. Meanwhile, inflation has remained subdued across the board, something that could slow the pace of monetary policy normalization in advanced economies.

Tax cuts in the US will add further impetus to an already strong economy. The stimulus is estimated to be around $1.5 trillion over ten years, and could boost economic growth by 0.3-0.5 percentage points in 2018 and 2019. Of course, this comes on top of already solid growth, which has been visible in a number of leading indicators, including capital goods orders and the ISM manufacturing index, which show increased optimism and rising investment. The labor market has also been tightening. Though non-farm payrolls increased by a lower-than-expected 148,000 in December, this followed two strong months; the 3-month average remained solid at 204,000, the highest figure recorded in 2017.

President Trump's agenda could bring more gains for the US economy in 2018, including further deregulation and a possible infrastructure deal. After the recent success of tax reform, additional business-friendly policies and fiscal stimulus can be expected this year. Indeed, Trump's promised infrastructure spending initiative could prove easier to achieve than previous policy proposals, especially if the president is able to work with Democrats to achieve it. If it materializes, it could boost economic growth still further.

Nonetheless, the risks of political dysfunction continue to cast a shadow on the US, though the recent passage of tax reform has seen these recede somewhat. Indeed, most will remember the difficulties faced by the administration in getting its agenda through Congress last year. While tax reform was a success, it may have been the exception and not the rule. Indeed, markets continue to await agreement on spending allocations for fiscal 2018 and the government debt ceiling, after this was postponed by Congress last month with a temporary bill. A deal on a budget bill, required to avoid a government shutdown, is expected in January along with other pending issues, including immigration and healthcare.

The eurozone economy ended 2017 strong, having already surprised markets to the upside throughout the year. The PMI continued to increase, rising to 58.1 in December, a nearly 7-year high. Strength has also been broad-based. Indeed, strong data from the "core" countries has more recently been supported by improving data in some "peripheral" economies, including Italy and Portugal. Economic and business sentiment has also been improving, with some metrics hitting new highs. Unemployment fell to a nearly 9-year low of 8.7%. Retail sales for the region were also buoyant in December.

In the eurozone too, political risks remained front-and-center, though they had receded significantly from their levels this time last year. Indeed, one of the positives for 2017 was the ability for Europe to weather the significant political risks it faced at the start of the year. Far-right populism was largely held at bay in elections. Still, populism's challenge was far from defeated. Germany is yet to form a new government after the historic advancement of the far-right party there. In Spain, the question of Catalan independence remains unresolved and could add to uncertainty. Meanwhile, an Italian election in March could again introduce uncertainty for the EU.

Despite solid economic performance, inflation in advanced economies remained subdued. Core CPI inflation in the US slipped to 1.7% y/y in November and did not appear to be gaining momentum. A firmer monthly gain in average wages of 0.3% in December could portend some acceleration in wage inflation, but it is too early to say, and at 2.5% y/y, wage growth remains subdued. In the eurozone too, inflation remains soft, with core inflation slipping to 0.9% in December.

Weak inflation, if it persists in 2018, could begin to weigh on the pace of monetary policy normalization. The Fed did not allow softer inflation since mid-2017 to hold it back from hiking the federal funds rate three times in 2017, though some had their doubts. However, the persistence of low inflation in 2018 could make that more difficult. Indeed, the Fed currently expects 3-4 hikes in 2018; markets already have a slightly more sanguine view, expecting 2-3 hikes. The case is still more relevant for the eurozone, where the recovery is more recent and inflation weaker.

Oil prices have been making further gains thus far in 2018, extending a more than 50% rally since the middle of last year. Brent rose to $68 per barrel recently, up from a low of around $45 in June 2017. Prices have certainly benefited from the OPEC-led agreement to reduce production by 14 member and 10 non-member producers, which was extended through the end of 2018. However, despite current strength, 2018 could see some downward pressure on prices from more modest global oil demand growth, especially during the first half of the year, and higher non-OPEC supply growth led by resurgent US shale production.

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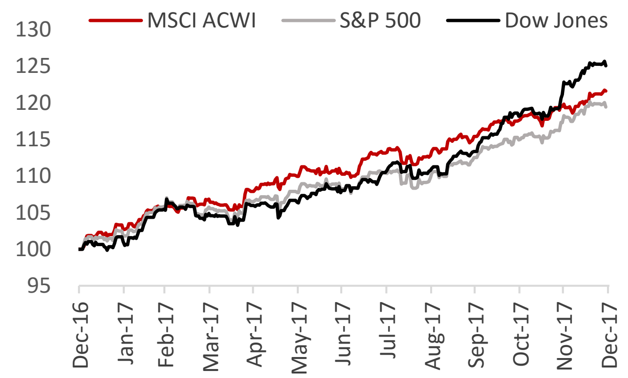
Global Equities

Global equities continued their positive streak throughout 2017, posting a gain of 1.5% in December and 21.6% for the year, as measured by the MSCI All Country World Index. US equities also ended the month in the green 1.0% and 1.8% as measured by the S&P 500 and Dow Jones respectively, in addition to registering gains of 19.4% and 25.1% for the year. This month US equities benefited from President Trump's tax reform law and its potential impact on corporate earnings, which was signed in late December to take effect in 2018. In other political news, lawmakers passed another stopgap spending bill, which prevented a government shutdown and permits them to operate through mid January 2018. In their December meeting, the Fed did increase the federal funds rate target by 0.25%, as markets had anticipated, to 1.25-1.50% with the expectation set for three hikes in 2018.

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

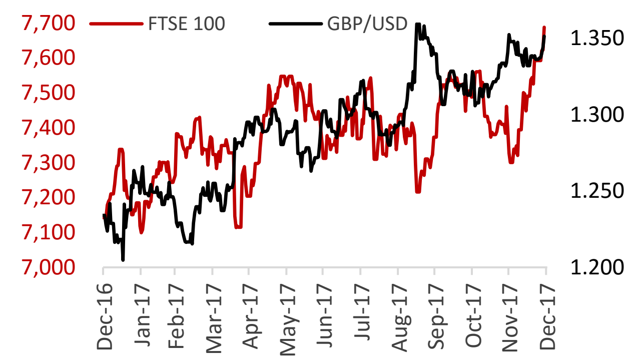


Source: Bloomberg *(figures rebased)*

In Europe, the Stoxx Europe 600 recovered in December, up 0.6% following last month's loss and registering gains of 7.7% for the year. Political uncertainty in the Eurozone continues to affect the market as the pro-independence parties won a majority in Catalonia's regional elections (70 out of 135 seats) causing the Ibex 35 index to retreat 1.2%. In Italy, following the passing of its 2018 budget, parliament was dissolved, paving the way for general elections to take place in March, causing Italian equities to retreat as well. The European Central Bank kept rates unchanged following their December meeting, however did raise the growth forecast for 2018 to 2.4% and will continue its tapering of the asset purchase program in 2018.

In the UK, the FTSE 100 ended the month in the green 4.9%, recovering from last month's loss and year to date is up 7.6%. The Bank of England (BoE) also left rates unchanged, following their December meeting, which was expected given that inflation is at a 5 year high, reaching 3.1% in November. Two possible rate hikes are likely to occur in 2018 in an effort to bring down the headline rate down to the BoE's 2% inflation target.

Chart 2: FTSE 100 & GBP

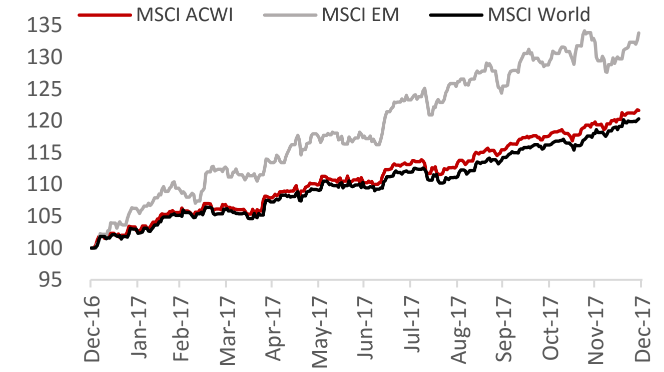


Source: Bloomberg

Japan's Nikkei 225 ended the month up 0.2%, bringing the index's performance for the full year up 19.1%. The Bank of Japan (BoJ) left interest rates unchanged during their December monetary policy meeting. The headline inflation rate remains well below the BoJ's 2% inflation target, increasing 0.6% for the year in November. The real GDP growth for Q3 2017 was revised to 2.5% annualized, mainly driven by exports on the back of a weak yen and growth in global demand.

The MSCI Emerging Market Index was the best performing global index for the month registering gains of 3.4%. The index rallied in 2017, its strongest in eight years, with the best full year performance, up 34.4% supported by robust economic growth and the low inflation environment.

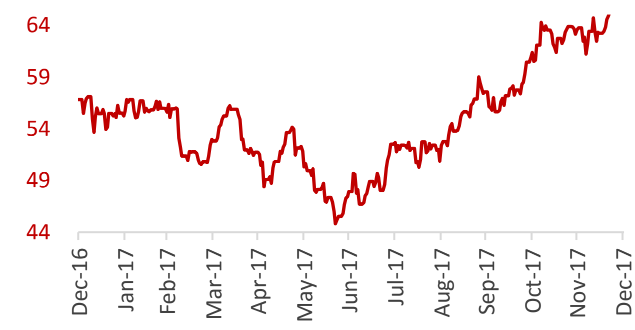
Chart 3: MSCI ACWI vs MSCI EM vs MSCI World



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

Brent Oil ended the month on a positive note, posting gains of 5.2%, bringing the full year performance up 17.7%. This month Brent crude prices pushed past the $65/bbl mark for the first time in two years, as a result of the Forties pipeline shutting down in the North Sea and Saudi Arabia and Russia's pledge to ensure a gradual exit from the OPEC production cut agreement which was extended until the end of 2018. OPEC continues to be compliant with the agreement, realizing 121% of their pledged cuts in December.

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



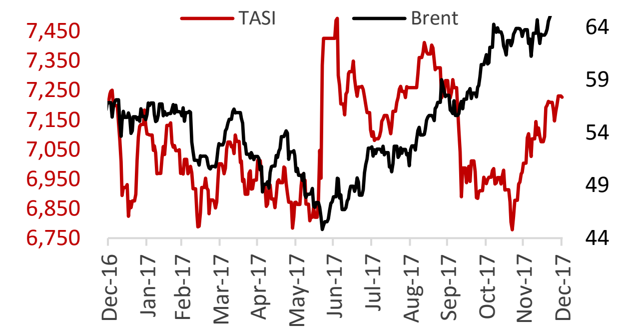
Source: Bloomberg

Regional Equities

GCC equities in December reversed some losses sustained in the previous months, closing in the green 3.3%, as measured by the MSCI GCC Index. The index ended the year slightly up 0.7%. Five of the seven GCC equity markets closed the month positive, led by Qatar's equity market, followed by Bahrain. Dubai was the worst performing followed by Oman. MENA equities as a whole also reversed the losses sustained in the past month, increasing 3.1% and closing the year up 0.5%.

The Tadawul All Share Index (TASI) closed up 3.2% in December, bringing the year to date performance to positive territory at 0.2%. Saudi Arabia announced a 72 billion riyal ($19.2 billion) program to support private sector growth. The expansionary fiscal stance will support housing construction and waive fees for small businesses. The Federal Tax Authority introduced a value-added tax (VAT) for the first time in the kingdom, effective January 1, 2018, adding that healthcare, education, transportation, and real estate sectors would be exempt.

Chart 5: TASI & Brent



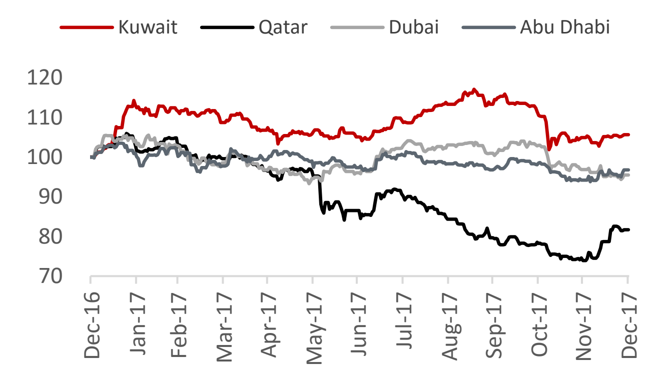
Source: Bloomberg

The Kuwait Weighted Index performed positively for the month of December, closing in the green 0.7%. Kuwait's equity market had the second largest year to date return at 5.6%. Following the Fed's rate decision to raise rates, the Central Bank of Kuwait decided to keep its key interest rate unchanged at 2.75% "to consolidate an atmosphere conducive to the recovery of economic growth rates".

The Qatar Exchange Index was the best performing market during December, rallying to 10.5%. However, as the diplomatic row continued, the market was unable to regain enough to remedy its losses during the year. The index closed in the red at 18.3% for the year; the worst performing market in the region. In December, the Central Bank of Qatar hiked its repo rate by 25 bps to 2.5% following the latest Fed hike, but left other policy rates on hold.

The Dubai and Abu Dhabi equity markets had mixed performances during December. Dubai's market closed the month down 1.5%, while Abu Dhabi's market closed up 2.7%. On a year to date basis, both markets closed in negative territory, with Dubai ending the year down 4.6% and Abu Dhabi down 3.6%. The economy is expected to recover gradually next year by promoting its non-oil economy while implementing fiscal reforms in the form of VAT. The Dubai Financial Market followed Abu Dhabi Bourse's footsteps by allowing short-selling to help boost liquidity and diversify products.

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



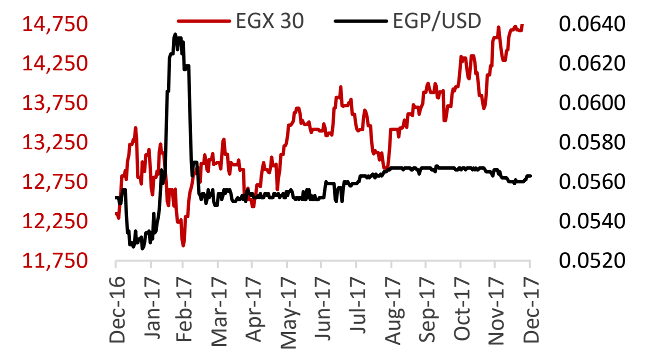
Source: Bloomberg *(figures rebased)*

Bahrain Bourse All Share Index posted a gain of 3.7%, further adding to its YTD gain that totaled 9.1%. S&P Global Ratings recently lowered the country's long-term foreign and local currency sovereign credit ratings to B+ from BB-. Bahrain affirmed it will introduce the GCC's VAT framework by the end of 2018.

Oman's MSM 30 Index shed 0.2% in December and plunged 11.8% in 2017. The government announced an expansionary budget for 2018, with a 7% increase in spending and a projected deficit of OMR 3 billion, 10% of GDP.

Egypt's EGX 30 Index closed up 3.3% for December, adding to its YTD close of 21.7%. The World Bank Group approved a $1.15 billion development policy loan to support the country's economic reform programs. There has been significant progress on reforms, creating a positive impact on the economy. The floating of the pound helped in renewing optimism as the economy benefited from strong export growth, a recovery in tourism and higher investment.

Chart 7: EGX 30 Index & EGP/USD



Source: Bloomberg

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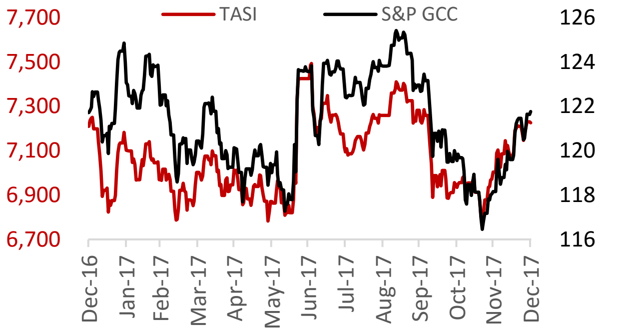
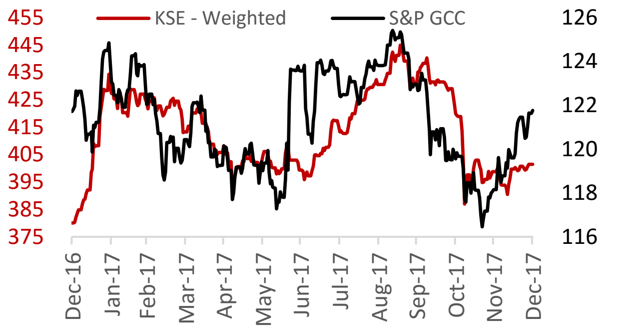
Stock Market Performance – *as of December 31, 2017:*

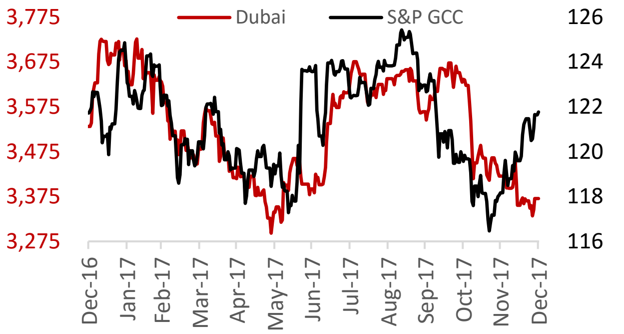
Saudi Arabia



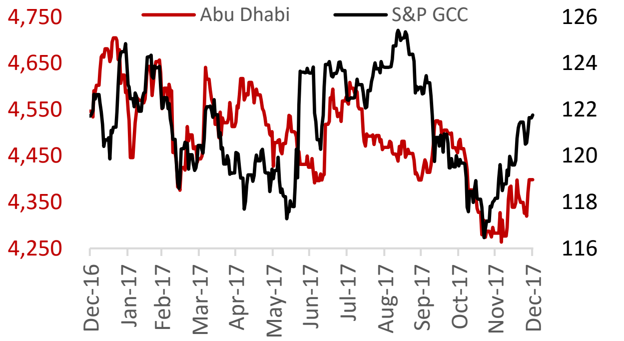
Kuwait



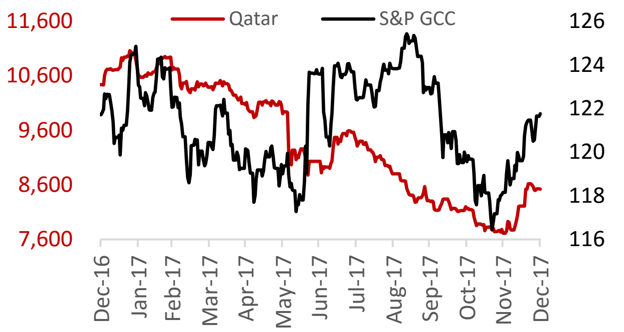
Dubai



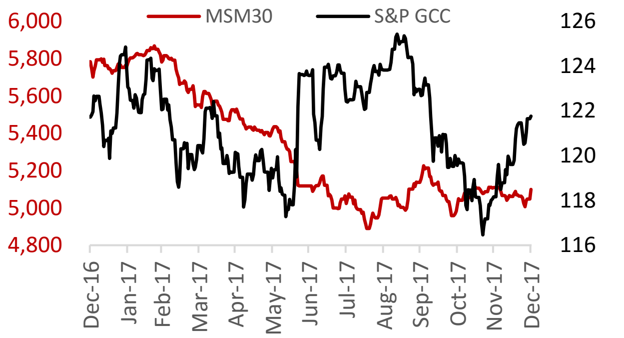
Abu Dhabi



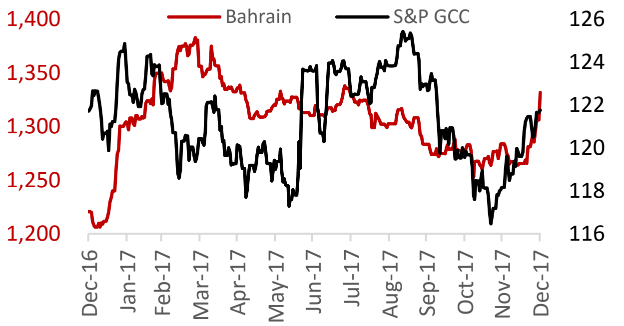
Qatar



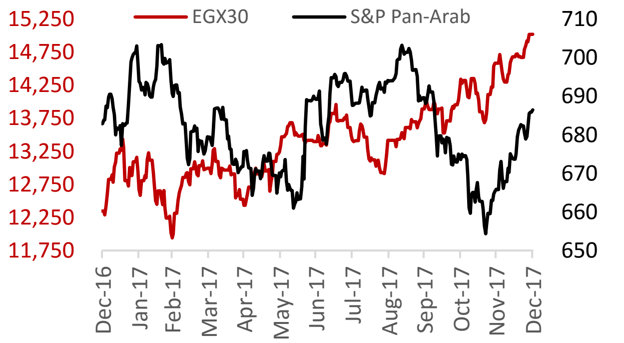
Oman



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.

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Market Data – *as of December 31, 2017:*

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	513.03	1.50%	5.37%	21.62%	21.57%
MSCI EAFE (USD)	2,050.79	1.52%	3.90%	21.78%	22.41%
MSCI EM (USD)	1,158.45	3.36%	7.09%	34.35%	34.95%
US					
S&P 500 Index	2,673.61	0.98%	6.12%	19.42%	18.87%
Dow Jones Industrial Average	24,719.22	1.84%	10.33%	25.08%	24.72%
NASDAQ Composite Index	6,903.39	0.43%	6.27%	28.24%	27.09%
Russell 2000 Index	1,535.51	-0.56%	2.99%	13.14%	12.64%
Developed					
Stoxx Europe 600	389.18	0.64%	0.26%	7.68%	8.03%
FTSE 100 Index	7,687.77	4.93%	4.27%	7.63%	7.97%
DAX Index	12,917.64	-0.82%	0.69%	12.51%	12.81%
CAC 40 Index	5,312.56	-1.12%	-0.32%	9.26%	9.80%
Nikkei 225	22,764.94	0.18%	11.83%	19.10%	18.91%
Hang Seng Index	29,919.15	2.54%	8.58%	35.99%	37.30%
Emerging Markets					
Russia Stock Exchange	2,109.74	0.43%	1.57%	-5.51%	-4.38%
Turkey - Borsa Istanbul 100 Index	115,333.00	10.91%	12.07%	47.60%	48.17%
MSCI Asia ex Japan	713.45	2.51%	7.94%	38.71%	39.68%
Shanghai Composite	3,307.17	-0.30%	-1.25%	6.56%	6.82%
India - NIFTY 50	10,530.70	2.97%	7.58%	28.65%	29.95%
Taiwan Stock Exchange	10,642.86	0.78%	3.03%	15.01%	16.28%
Brazil Ibovespa Index	76,402.08	6.16%	2.84%	26.86%	26.86%
Mexico Stock Exchange	49,354.42	4.80%	-1.97%	8.13%	7.50%
MENA					
S&P Pan Arab (USD)	685.83	2.99%	-0.54%	0.43%	0.56%
S&P GCC Composite (USD)	121.64	2.95%	-1.07%	-0.07%	-0.04%
KSA - Tadawul All Share Index	7,226.32	3.17%	-0.78%	0.22%	0.22%
Dubai - DFM General Index	3,370.07	-1.46%	-5.44%	-4.55%	-4.55%
Abu Dhabi - ADX General Index	4,398.44	2.69%	0.02%	-3.25%	-3.25%
Qatar Exchange Index	8,523.38	10.49%	2.54%	-18.33%	-18.33%
Kuwait Weighted Index	401.42	0.66%	-6.80%	5.61%	5.61%
Oman - Muscat Securities Market 30 Index	5,099.28	-0.20%	-0.74%	-11.82%	-11.82%
Bahrain Bourse All Share Index	1,331.71	3.74%	3.76%	9.12%	9.12%
Egypt - EGX 30	15,016.97	2.98%	8.13%	21.65%	21.65%
Morocco - MADEX	10,100.32	-1.56%	2.26%	5.79%	6.61%
Jordan - ASE Index	2,132.17	0.46%	0.50%	-1.76%	-1.76%

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

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Market Data – *as of December 31, 2017:*

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	569.95	0.32%	1.03%	7.05%	7.30%
Barclays US Agg Bond	2,046.37	0.46%	0.39%	3.54%	3.80%
US Government Totsl Return Value Unhedged (USD)	2,165.43	0.30%	0.05%	2.30%	2.52%
Bloomberg Barclays US Corp Bond Index	2,901.78	0.91%	1.17%	6.42%	6.71%
Bloomberg Barclays US Corp High Yield Bond Index	1,949.97	0.30%	0.47%	7.50%	7.52%
Global Treasury ex US Total Return Index Value Unhedged	639.20	0.03%	1.49%	9.31%	9.46%
Global Agg Corporate Total Return Index Value Unhedged	259.01	0.80%	1.44%	9.09%	9.47%
JPM Emerging Market Bond Index (USD)	807.95	0.63%	0.54%	9.32%	9.36%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,311.48	0.58%	0.61%	9.54%	9.62%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	1.376		1.041	1.011	0.447
2 Year Yield	1.883		1.483	1.382	1.212
5 Year Yield	2.206		1.936	1.888	1.954
10 Year Yield	2.405		2.334	2.304	2.475
30 Year Yield	2.740		2.860	2.835	3.079
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	1.190		1.365	1.257	1.235
German 10 Year Bund	0.427		0.464	0.466	0.175
Japan 10 Year Treasury	0.048		0.068	0.086	0.040

Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,302.80	2.18%	1.80%	13.53%	12.49%
Silver Spot	16.94	3.04%	1.70%	6.34%	4.81%
Energy					
WTI Crude	60.42	5.26%	16.93%	12.47%	12.37%
Brent Crude	66.87	5.19%	16.21%	17.69%	19.11%
Natural Gas	2.95	-2.38%	-1.80%	-20.70%	-22.33%

Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.201	0.85%	1.62%	14.15%	14.44%
GBP-USD X-RATE	1.351	-0.09%	0.86%	9.51%	10.21%
USD-JPY X-RATE	112.690	0.13%	0.16%	-3.65%	-3.30%
KWD-USD X-RATE	3.313	-0.05%	0.07%	1.27%	1.35%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	1.564	1.694	1.837	2.107
Saudi Interbank	1.691	1.898	2.088	2.285
Emirates Interbank	1.655	1.798	2.069	2.580
Qatar Interbank	2.397	2.742	2.893	3.048
Kuwait Interbank	1.688	1.875	2.125	2.375

Source: Bloomberg

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