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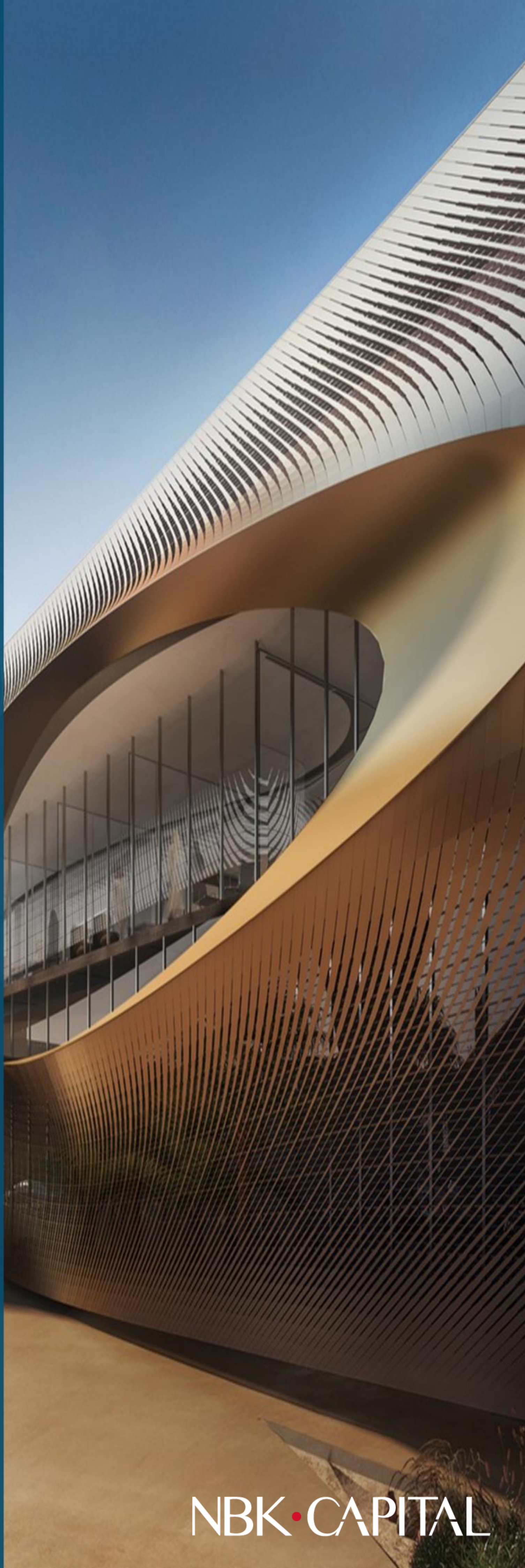
MENA MARKETS REVIEW

HIGHLIGHTS

- Global equities performed poorly this month and experienced heightened volatility
- The Germans have formed a government but markets across Europe and the UK posted losses
- Emerging markets erased more than 50% of January’s gains while Brent wiped out 100% of its January gains
- GCC equity markets had mixed performances during the month
- Qatar’s DSM Index posted the largest loss while the Bahrain Bourse All Share Index was the top performer



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Market volatility has risen as tighter monetary conditions loom

February was a bumpy month for markets, with volatility rising to its highest levels in over two years. The S&P 500 index is down 5% from peaks after regaining some of its losses. Fears of complacency combined with a changing view on the pace of central bank tightening, particularly in the US, laid the ground for the market retreat since early February. Yields have also climbed as some factored in a more hawkish Fed in 2018. Meanwhile, economic data continued to confirm a robust recovery in the global economy, whose outlook improved on expectations of a more favorable fiscal policy in the US.

Markets see Fed moving faster on rate hikes in 2018. Much of the jittery sentiment has come from the US, where inflation appeared to pick up pace enough for some to expect a more hawkish Fed in 2018. Strong core CPI inflation in January affirmed the solid wage growth data seen earlier. The 0.35% monthly gain in core prices was by far the largest in years. Still, annual inflation was unchanged at 1.8% y/y. Producer price inflation also beat expectations with a 0.4% m/m gain. The PCE price index also confirmed stronger price growth, though core inflation was steady (1.5% y/y) and well below the 2% target.

Expectations of more Fed hikes in 2018 are also being fueled by a positive shift in the growth outlook for the US. Already healthy growth is likely to be bolstered by fiscal stimulus in the form of historic tax cuts and higher spending. Despite some weaker economic data in January, the broad evidence continued to reflect strength. Indeed, retail sales and industrial production disappointed expectations in January, while durable goods orders were soft. Still, other data has been robust. The February Philly Fed index beat expectations, coming in at a solid 25.8, while consumer sentiment surprised to the upside.

As a result, many now expect the Fed to move faster on rate hikes in 2018. This view was also supported by recent testimony by the Fed chair Jerome Powell in which he suggested that more hikes could be forthcoming this year. Indeed, more analysts now expect four 25 bps hikes during 2018, though the odds of just three hikes are still higher. Yields have also risen. The 10-year US Treasury yield rose to 2.86%, up around 43 basis points since the start of 2018.

Eurozone growth remains robust. The economic recovery in the eurozone remains in good shape, despite some softer data. February's eurozone flash PMI eased to its lowest level in several months, though it remained strong at 57.5. Economic sentiment dipped to 114.1, but was still near 18-year highs. Unemployment also remained at a record low 8.6% in January. Of course, the key concern in the eurozone continues to be the absence of inflationary momentum. Headline inflation edged lower to 1.2%, though core inflation was encouraging at 1.0%. As a result, few expect the European Central Bank (ECB) to move toward tightening monetary conditions anytime soon, though the stronger economy suggests the ECB might be closer to that than the inflation data suggests.

In Japan, the economy remained on a firm footing though here too the data has been somewhat softer in recent weeks. Industrial activity slowed from 4.4% y/y in December to 2.7% y/y in January on the back of weaker demand and an inventory build-up. Domestic consumption also remains subdued with retail sales growth slowing more than expected. Despite some concerns of a stronger yen hurting exports, the data has shown otherwise. Indeed, exports have help up quite well.

Oil prices have held up despite a retreat from highs. After rising to 4-year highs in January, oil prices retreated as a result of the market turmoil in February. Nonetheless, prices continued to hold on to levels around $65 chiefly as fundamentals continued to look relatively robust. There may also be some downward pressure due to resurgent oil production in the US which is expected to add 1.3 million barrels per day of extra output in 2018, or around two-thirds of expected non-OPEC production growth during the year.

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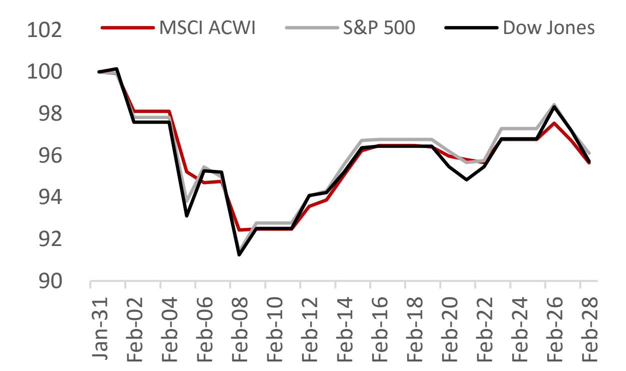
Global Equities

Global equities in February closed in the negative across the board and experienced heightened volatility. The MSCI All Country World Index shed 4.4% while US equities did not fare any better with the Dow Jones and S&P 500 both dropping 4.3% and 3.9%, respectively. On February 5, the Dow Jones experienced its largest intraday drop losing 1,600 points although it slightly recovered and closed down 1,175 points. The intraday drop was a result of market participants pulling back on the fear of faster than expected rising interest rates. Coincidentally on February 5, James Powell assumed office as Chair of the Federal Reserve. Later in the month, Trump inked a massive spending deal ending the year's second government shut down. Additionally, the market's expectations for rate hikes increased to four from three.

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

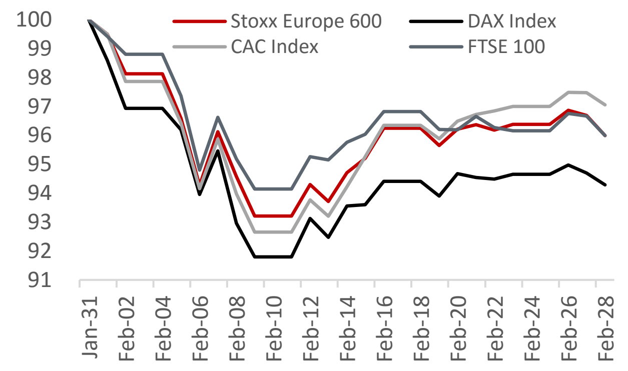


Source: Bloomberg *(figures rebased)*

In Europe, the Stoxx Europe 600 posted a -4.0% return, for February, wiping out the gains reported in the previous month. The two largest markets in Europe, being the DAX 30 Index and CAC 40 Index, each posted losses of 5.7% and 2.9%, respectively. In Germany, Chancellor Merkel's party, the Christian Democratic Union, and the Social Democratic Union (SPD) formed a coalition government. In addition, Fitch upgraded Greece from B- to B with a positive outlook citing economic growth and reduced political risk positively influencing government debt sustainability.

In the UK, the FTSE 100 continued its negative streak from the previous month, posting a 4.0% loss in February. The sell off from across the Atlantic carried over into the UK with the FTSE 100 reaching its lowest point in over a year. Like the US, rate hike expectations in the UK have increased with the market predicting a rate hike as early as May. On Brexit, a divorce deal has yet to be agreed on and the EU has stated that one needs to be reached quickly otherwise the exit will be a hard one.

Chart 2: European and UK Equities

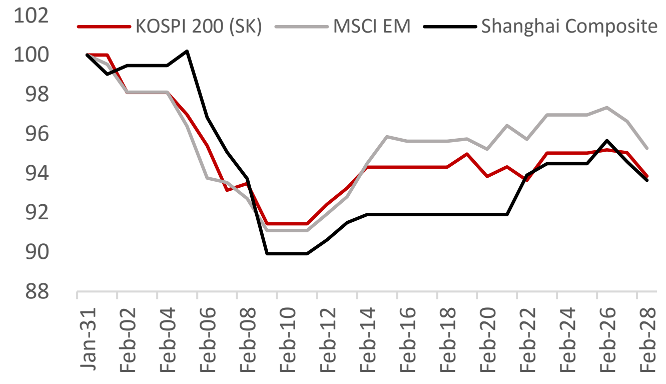


Source: Bloomberg *(figures rebased)*

Japan's Nikkei 225 was unable to continue its positive run through February losing 4.5%. The sell-off in US markets carried over into Japan causing the index to fall by more than 12% from its high in mid-January. The losses sustained in February are not attributable to domestic factors; in fact, corporate earnings are expected to grow during fiscal years 2017 and 2018. In addition, Gov. Haruhiko Kuroda, of the BOJ, will serve a second term affirming the government's confidence is his abilities to lift Japan's economy out of stagflation.

In February, the MSCI Emerging Market Index lost more than 50% of it's January gain, closing down 4.7%. Unlike most markets, the index started its descent earlier in the month, yet bottomed out on February 9. The two single largest markets comprising almost 46% of the index are China and South Korea. China's Shanghai Composite Index fell 6.4% while South Korea's KOSPI 200 Index fell 6.2%.

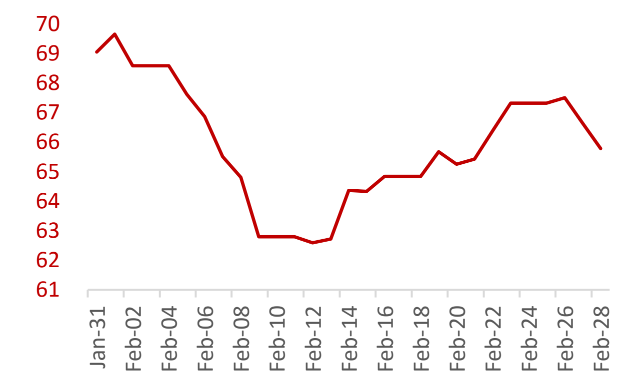
Chart 3: MSCI EM vs South Korea vs China



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

Brent Oil ended the month on a negative note dropping 4.7%, wiping out 100% of the gains achieved in January. In February, the commodity traded in the range between USD 60pb and USD 70pb with the highest closing price on the 1st of February at 69.65. During the month crude inventory levels creeped up and US production increased to a point surpassing Saudi Arabia while further narrowing the gap with Russia. Also in commodities, Gold dropped 2.0% in February although still maintains a positive return for the first two months of 2018.

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



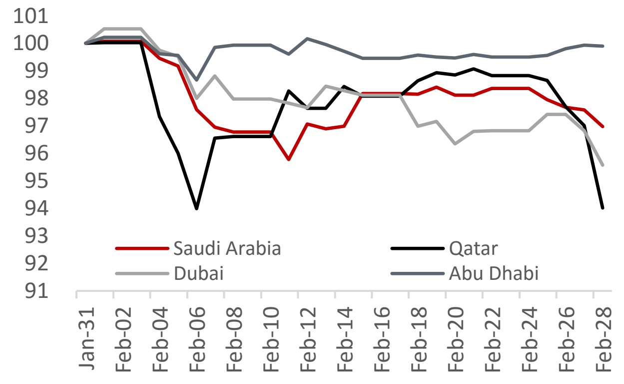
Source: Bloomberg

Regional Equities

Following a strong start to the year, GCC equities ended February in negative territory. The S&P GCC Index was down 2.7%. The GCC indices overall, much like other global markets, are heavily influenced by US equity markets. A majority of the GCC equity markets closed in the red, except for Bahrain, Kuwait, and Oman. The worst performing index was Qatar's DSM Index followed by Dubai, Saudi Arabia, and Abu Dhabi. MENA equities, as a whole, as measured by the S&P Pan Arab Composite Index was down in February 2.1% while Egypt maintained its positive momentum.

The Tadawul All Share Index (TASI) closed down 3.0% in February on the back of mixed earnings results. Following the implementation of the 5% VAT in Saudi Arabia and the increase in fuel and utility prices, inflation increased substantially in January, up 3.9% month on month. In an effort to attract more foreign investment, Saudi Arabia has also extended the term of foreign investment licenses from 1 year to 5 years. The ongoing reforms in the Kingdom aiming to create an investor friendly climate have led the cabinet to approve a bankruptcy law, which historically did not exist.

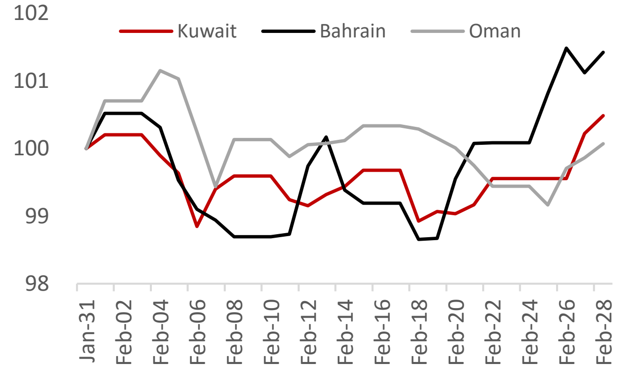
Chart 5: Performance of KSA, Qatar, Dubai & Abu Dhabi



Source: Bloomberg *(figures rebased)*

The Qatar Exchange Index was the worst performing index in February, closing in the red 6.0%. Similar to its peers, the index suffered from mixed earnings results and weaker oil prices. In addition, the increased volatility, on a global level, seemed to push investors to take profits out given the previous month's robust performance. According to the Institute of International Finance, based in Washington D.C., Qatar's economy has weathered the economic blockade imposed on it by its neighbors through an increase in government spending, private consumption and exports.

Chart 6: Performance of Kuwait, Bahrain & Oman



Source: Bloomberg *(figures rebased)*

Dubai's DFM General Index had negative performance for the month, registering losses of 4.4% with continued weakness in the key real estate sector while Abu Dhabi ended the month slightly down 0.1%. Despite the introduction of the VAT, the Dubai economy tracker, a good measure of economic growth, increased from 54.7 in December to 56.0 in January with strong output and new orders.

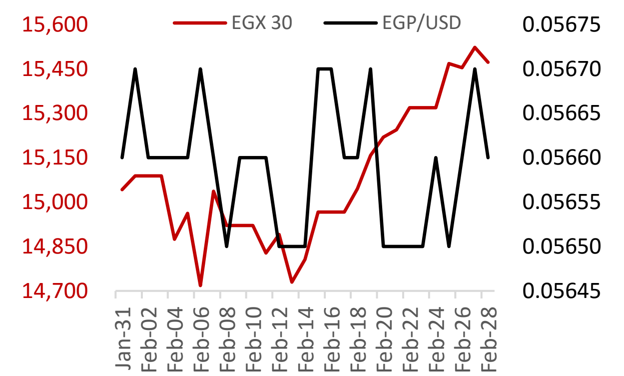
The Kuwait Weighted Index was the second best performing index in the GCC, posting gains of just 0.5% in February, despite positive earnings results. According to interim figures released by the Ministry of Finance, for the first 10 months of FY17/18 the fiscal deficit is at KD 2.7 billion and spending remains below budget, by approximately 14% through January 2018. The S&P has affirmed Kuwait's "AA/A-1+" long and short-term foreign and local currency sovereign credit ratings with a stable outlook.

The Bahrain Bourse All Share Index was the best performing index ending the month of February in the green 1.4%. The Minister of Finance Sheikh Ahmed bin Mohammed al-Khalifa, according to Reuters, announced that Bahrain will go ahead and impose a value-added tax to strengthen state finances stating, "We'll be working with parliament on VAT and aim to have everything set up by the end of 2018".

Oman's MSM 30 Index ended the month of February almost flat 0.1%. According to a report released by the The Institute of Chartered Accountants in England and Wales on the Middle East economies, Oman's GDP growth is expected to be 3.6% in 2018, supported by higher oil prices and an increase in gas output. Early in the month Oman was in discussions with banks for a possible USD Sukuk issuance, their second round in 2018, in the upcoming months for the purpose of plugging their budget deficit.

Egypt's EGX 30 closed up 2.9% for the month. The Central Bank of Egypt cut its policy rates by 100 bps following inflation in January easing to 17% year on year. Egypt also issued bonds this month in international markets worth $4 billion with maturities ranging between 5 - 30 years priced at 5.6% - 7.9%. This is expected to further advance reserves, which in January increased to $38.2 billion. For the first four months of FY17/18 Egypt's fiscal deficit narrowed to 9.4% of GDP from 10.8% a year earlier while the primary deficit dropped to 0.8% of GDP from 2.8%.

Chart 7: EGX 30 Index & EGP/USD



Source: Bloomberg

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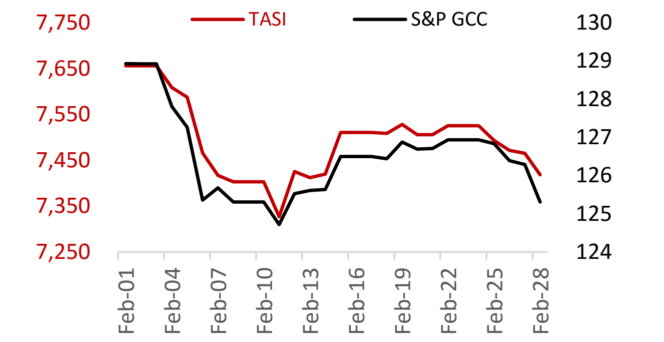
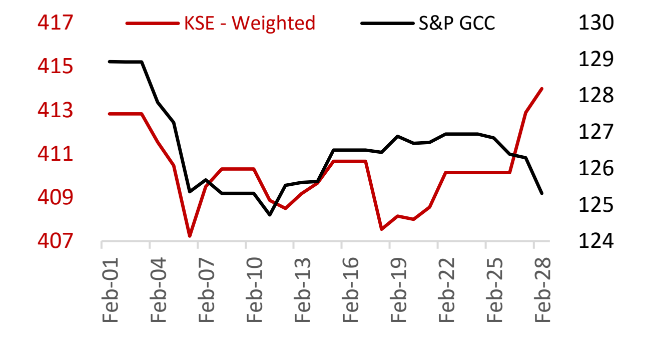
Stock Market Performance – *as of February 28, 2018:*

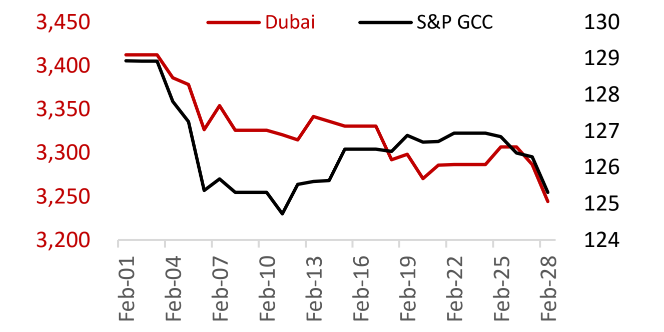
Saudi Arabia



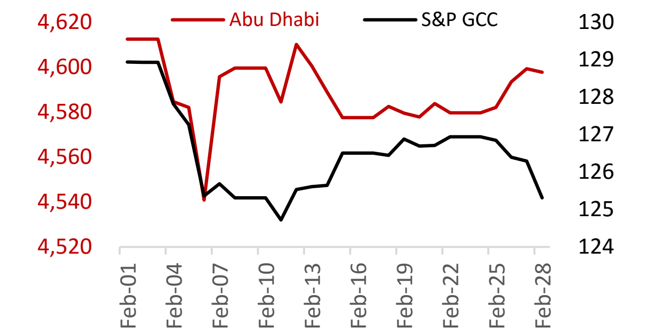
Kuwait



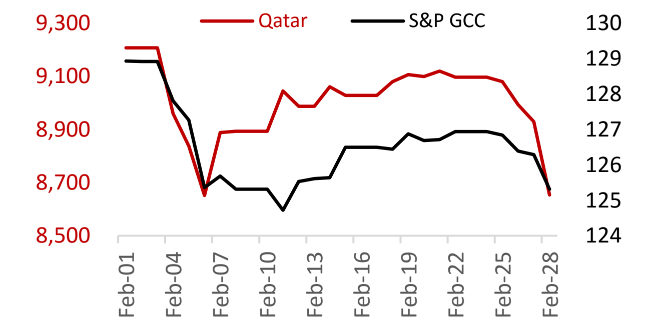
Dubai



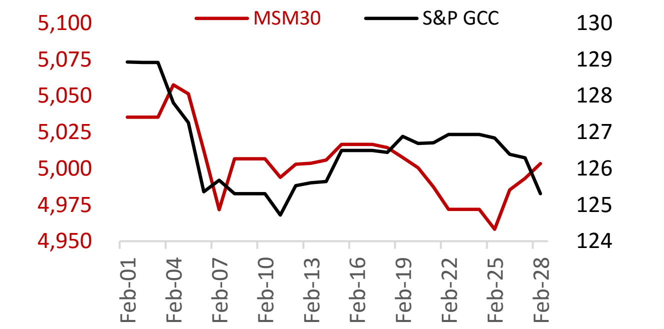
Abu Dhabi



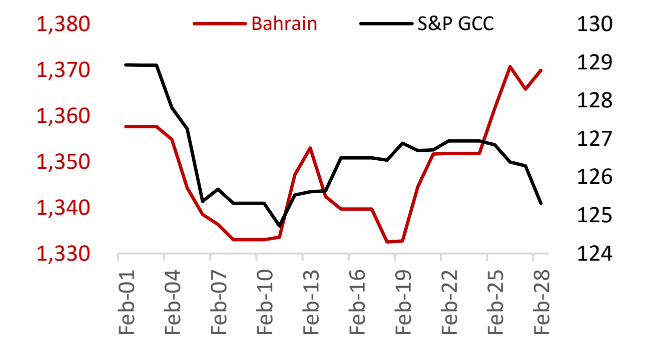
Qatar



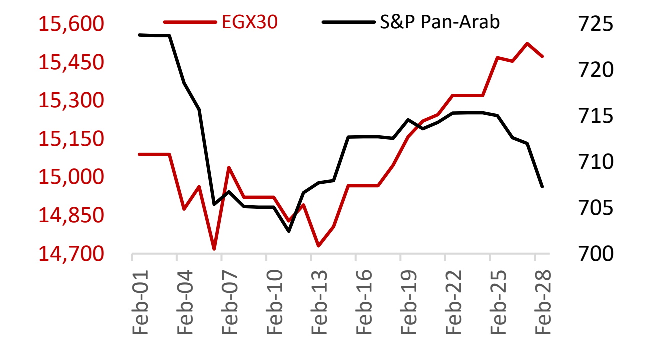
Oman



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.
Source: Bloomberg

Market Data – *as of February 28, 2018:*

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	518.08	-4.36%	0.98%	0.98%	16.55%
MSCI EAFE (USD)	2,051.73	-4.71%	0.05%	0.05%	17.04%
MSCI EM (USD)	1,195.19	-4.73%	3.17%	3.17%	27.64%
US					
S&P 500 Index	2,713.83	-3.89%	1.50%	1.50%	14.82%
Dow Jones Industrial Average	25,029.20	-4.28%	1.25%	1.25%	20.26%
NASDAQ Composite Index	7,273.01	-1.87%	5.35%	5.35%	24.85%
Russell 2000 Index	1,512.45	-3.97%	-1.50%	-1.50%	9.07%
Developed					
Stoxx Europe 600	379.63	-4.00%	-2.45%	-2.45%	2.54%
FTSE 100 Index	7,231.91	-4.00%	-5.93%	-5.93%	-0.43%
DAX Index	12,435.85	-5.71%	-3.73%	-3.73%	5.08%
CAC 40 Index	5,320.49	-2.94%	0.15%	0.15%	9.51%
Nikkei 225	22,068.24	-4.46%	-3.06%	-3.06%	15.43%
Hang Seng Index	30,844.72	-6.21%	3.09%	3.09%	29.92%
Emerging Markets					
Russia Stock Exchange	2,296.80	0.30%	8.87%	8.87%	12.82%
Turkey - Borsa Istanbul 100 Index	118,950.80	-0.48%	3.14%	3.14%	35.98%
MSCI Asia ex Japan	728.51	-5.04%	2.11%	2.11%	29.09%
Shanghai Composite	3,259.41	-6.36%	-1.44%	-1.44%	0.55%
India - NIFTY 50	10,492.85	-4.85%	-0.36%	-0.36%	18.17%
Taiwan Stock Exchange	10,815.47	-2.60%	1.62%	1.62%	10.92%
Brazil Ibovespa Index	85,353.59	0.52%	11.72%	11.72%	28.04%
Mexico Stock Exchange	47,437.93	-5.98%	-3.88%	-3.88%	1.24%
MENA					
S&P Pan Arab (USD)	707.27	-2.08%	3.03%	3.03%	2.40%
S&P GCC Composite (USD)	125.31	-2.73%	2.92%	2.92%	2.67%
KSA - Tadawul All Share Index	7,418.80	-3.02%	2.66%	2.66%	6.40%
Dubai - DFM General Index	3,244.12	-4.43%	-3.74%	-3.74%	-10.64%
Abu Dhabi - ADX General Index	4,597.66	-0.10%	4.53%	4.53%	1.00%
Qatar Exchange Index	8,653.32	-5.99%	1.52%	1.52%	-19.14%
Kuwait Weighted Index	413.98	0.49%	3.13%	3.13%	-2.37%
Oman - Muscat Securities Market 30 Index	5,003.37	0.07%	-1.88%	-1.88%	-13.44%
Bahrain Bourse All Share Index	1,369.90	1.42%	2.87%	2.87%	1.50%
Egypt - EGX 30	15,472.69	2.86%	3.03%	3.03%	29.61%
Morocco - MADEX	10,710.60	0.53%	6.04%	6.04%	9.69%
Jordan - ASE Index	2,219.67	1.20%	4.10%	4.10%	0.31%

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

Market Data – *as of February 28, 2018:*

Fixed Income	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	568.58	-0.97%	-0.24%	-0.24%	5.39%
Barclays US Agg Bond	2,003.63	-0.95%	-2.09%	-2.09%	0.51%
US Government Totsl Return Value Unhedged (USD)	2,120.90	-0.74%	-2.06%	-2.06%	-0.52%
Bloomberg Barclays US Corp Bond Index	2,827.38	-1.62%	-2.56%	-2.56%	2.20%
Bloomberg Barclays US Corp High Yield Bond Index	1,944.99	-0.85%	-0.26%	-0.26%	4.18%
Global Treasury ex US Total Return Index Value Unhedged	656.95	-0.24%	2.78%	2.78%	9.80%
Global Agg Corporate Total Return Index Value Unhedged	255.76	-1.83%	-1.26%	-1.26%	6.01%
JPM Emerging Market Bond Index (USD)	790.57	-1.96%	-2.15%	-2.15%	3.31%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,298.05	-1.38%	-1.02%	-1.02%	4.55%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	1.652		1.256	1.000	0.604
2 Year Yield	2.250		1.782	1.342	1.260
5 Year Yield	2.640		2.138	1.738	1.929
10 Year Yield	2.861		2.410	2.166	2.390
30 Year Yield	3.124		2.827	2.777	2.995
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	1.501		1.330	1.057	1.151
German 10 Year Bund	0.656		0.367	0.379	0.208
Japan 10 Year Treasury	0.053		0.039	-0.001	0.056

Commodities	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,318.31	-1.99%	1.19%	1.19%	5.60%
Silver Spot	16.42	-5.36%	-3.08%	-3.08%	-10.36%
Energy					
WTI Crude	61.64	-4.77%	2.02%	2.02%	14.13%
Brent Crude	65.78	-4.74%	-1.63%	-1.63%	18.33%
Natural Gas	2.67	-10.95%	-9.69%	-9.69%	-3.86%

Currencies	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD	1.219	-1.77%	1.57%	1.57%	15.30%
GBP-USD	1.376	-3.04%	1.83%	1.83%	11.15%
USD-JPY	106.680	-2.30%	-5.33%	-5.33%	-5.40%
KWD-USD	3.329	-0.25%	0.46%	0.46%	1.67%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	1.670	2.017	2.224	2.502
Saudi Interbank	1.693	1.915	2.115	2.315
Emirates Interbank	1.660	1.997	2.239	2.644
Qatar Interbank	2.450	2.700	2.800	3.000
Kuwait Interbank	1.688	1.875	2.063	2.375

Source: Bloomberg

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