

Monthly Newsletter

December 3rd, 2020

"Salus populi suprema lex esto – The health of the people should be the supreme law." – Cicero

"What is necessary is never a risk." – Cardinal De Retz

Clues from Recent Asset Classes' Behavior

Macro: The Vaccine Injected Hope

Oil: Vaccine Has Provided Some Relief...The Ball is in OPEC's Court

MENA: UAE Accelerating Pace of Reforms, Stocks Remain Laggard

Introduction

The final month of 2020 has arrived, December is here! The year full of surprises is not over yet. Get ready for round 12 of the journey. Cheer up, stock markets are surging to record highs. Ironically, Covid-19 cases are rising exponentially and catching a new record.

A Biden victory, easing global financial conditions, strong or above expectations Q3 results were supportive factors. However, the announcement of three coronavirus vaccines was the key catalyst for the rally and the major trigger of the positive reversal especially in cyclical and value stocks. Everybody took a breath, and markets took a large one!

The discovery of a vaccine has led to a repricing of downward risks. We have a light at the end of the tunnel. The vaccine means that investors and companies can start looking ahead at the long-term competitive landscape beyond the coronavirus era. They can factor in a much higher mobility and less social distancing and thus a faster recovery. Sectors that are sensitive to economic activity or a vaccine now have the ingredients for a take-off in place.

Our portfolios benefited from presence of cyclical stocks which took a lift from the vaccine, such as energy, agribusiness and infrastructure along with a twist towards Europe and emerging markets. After the astonishing performance of markets last month, we took some profits as we think there are reasons to be cautious.

Our prudent optimism is due to the fact that policy makers will continue to have a clear thinking about supportive policies despite tugs of war regarding stimulus packages. The debate is not about whether there will be a stimulus or not, but about the size of the stimulus as all policy makers do not wish to withdraw support packages prematurely.

That being said, it is worth mentioning that some questions regarding the vaccine still need answers. For example, the timing of the regulators' approval, the scalability of global manufacturing capabilities, the challenges facing the logistics in terms of transportation or storing and the mechanism to inoculate people around the world. For the time being, speed is needed in developing a treatment or vaccine to protect the front liners and the most vulnerable and to provide a put option for the community and the economy. We acknowledge that, with time, science will deliver a second generation of vaccines that will be much efficient with a greater impact. All these factors indicate that the recovery will be uneven between developed and emerging economies.

Meanwhile it is worth reminding everyone that the virus is still spreading in the U.S. and Europe, and it will be felt in the labor market and spending in this quarter and the next. For instance, Europe's services sector is receding in front of the virus surge while the U.S. consumer is gloomy, with only China recovering steadily. We will be buying the dip and doing an appropriate rebalancing and rotation by looking into cheap betas with an attractive growth.

Asset Management Team:

Wassim Jomaa, CFA
VP, Head of Asset Management
Wassim.Jomaa@Capitalinv.com

Raed Al Momani
Portfolio Manager
Raed.Momani@Capitalinv.com

Sarah Elawi
Senior Financial Analyst
Sarah.Elawi@Capitalinv.com

Zina Rajjal
Senior Financial Analyst
Zina.Rajjal@Capitalinv.com

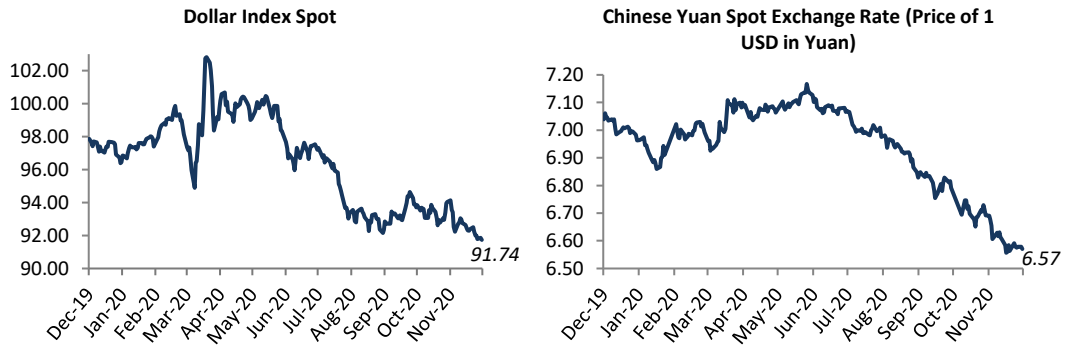
Ghaleb Mihyar
Financial Analyst
Ghaleb.Mihyar@Capitalinv.com

For further information and to discuss possible investment opportunities, please contact:

Asset Management Department
Tel: +962 6 5200330
Ext. 2494 and 2373
AssetManagement@Capitalinv.com

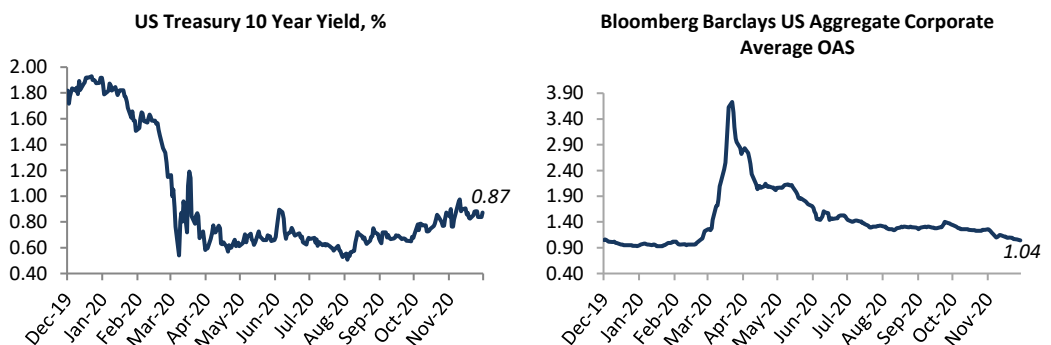
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Clues from Recent Asset Classes' Behavior



Source: Bloomberg, Capital Investments

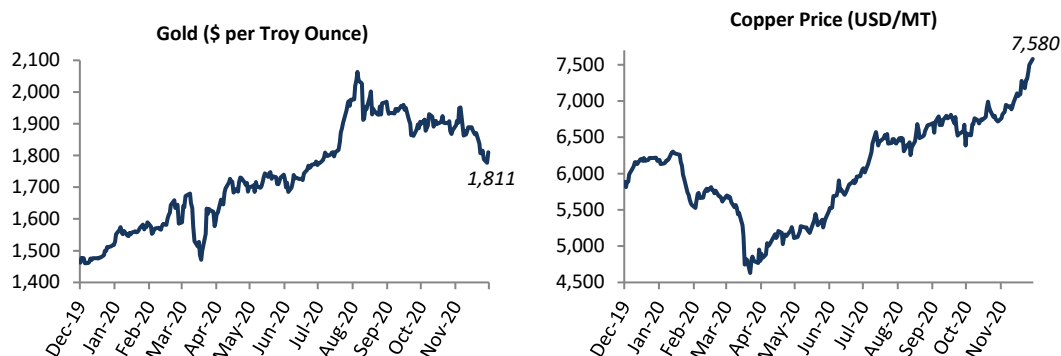
The USD is breaking significantly below the upward trend since 2011 and thus confirming that the downward trend in the greenback may be sustainable. Although the USD seemed oversold on the short term and short positions are excessive, any bounce back would not be sustainable. A Biden victory, further fiscal stimulus, a vaccine, and a potential pick up in global growth in 2021 are all factors contributing to the downward bias in the dollar and reinforcing the shift towards emerging markets and value plays. It is worth noting that the Euro is a major component of the dollar index basket and its direction will be decisive. The virus resurgence in Europe and rising activity restrictions will dampen economic activity and curb the rise in the Euro near term. The Yuan is benefiting from the interest rate differential vis a vis the U.S. and from an economic recovery in China. The rally since the spring of 2020 is showing some signs of consolidation with some weakness bias, but overall, China will rely on a relatively strong Yuan to keep inflation anchored.



Source: Bloomberg, Capital Investments

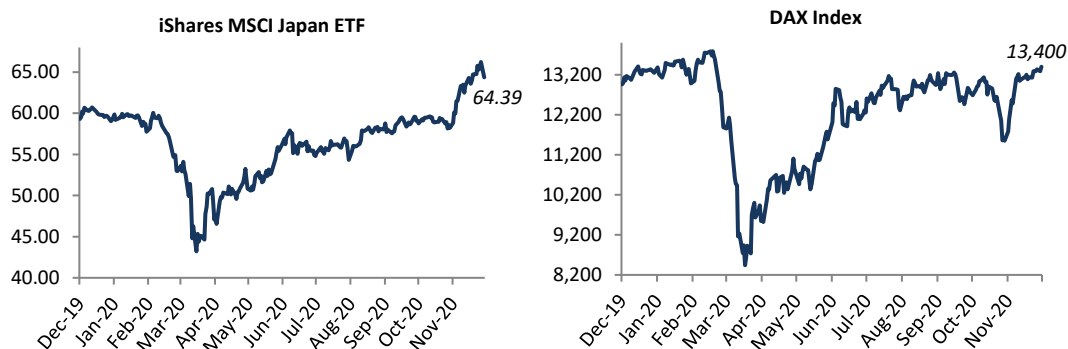
Despite the positive vaccine news, the U.S. 10-year yield retraced its upward spike over the past month. The sovereign yield is a relatively rational indicator pricing sluggish growth and muted inflation for the coming quarter. The fact that a vaccine will not be significantly rolled out until Q2 2021 means that the spike in yields will be limited although they may get a support from any

approved fiscal stimulus. The vaccine helped in compressing credit spreads as well, keeping them at bay as investors started to price in a discovery.



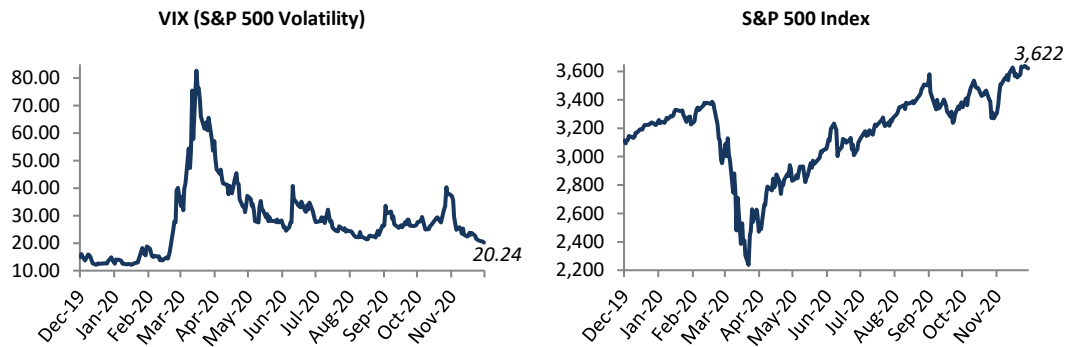
Source: Bloomberg, Capital Investments

We continue to subscribe to the long- term narrative of gold as a hedge against currency debasement and a play on inflationary expectations along with silver, and as we have mentioned in our previous newsletters, we prefer the miners. Since the announcement of the vaccine, the narrative in the market was Short Gold and Long Copper and Oil. Copper miners are core to our strategy, and we believe that copper prices will be driven by a market deficit and infrastructure-led stimulus. We play oil tactically until we are confident about the market rebalancing. We see gold, oil and copper each playing a role in our portfolios.



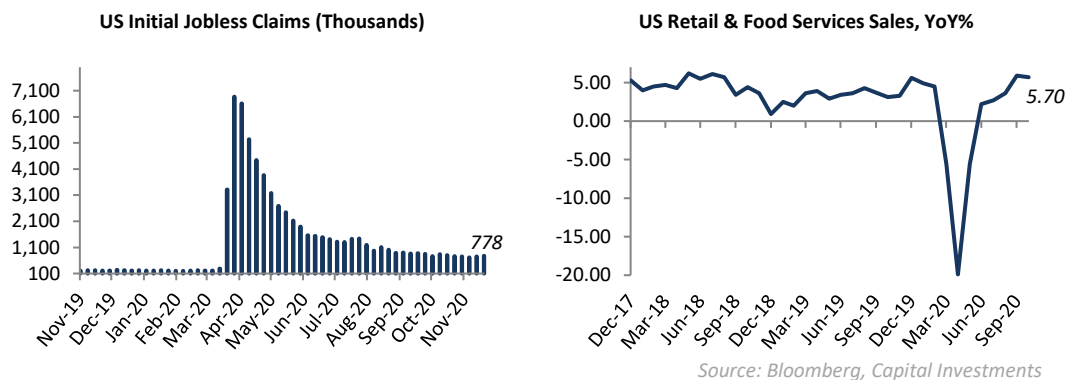
Source: Bloomberg, Capital Investments

We see both Japan and Germany as good examples of value and cyclical plays and we look to add into weakness or consolidation. Both are benefiting from a global recovery and targeted fiscal stimulus noting that German equities are still laggard.

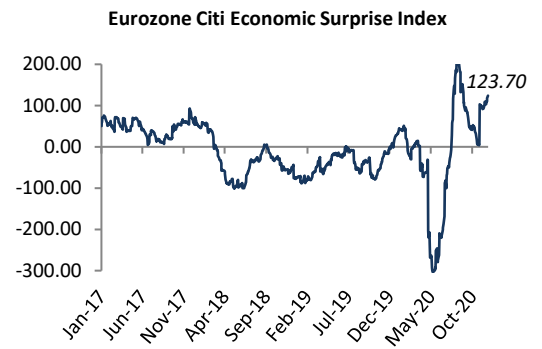
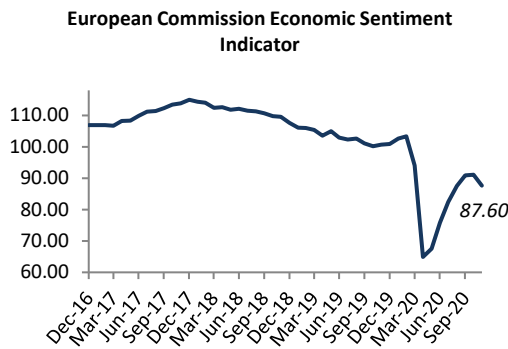


We have a conviction that a vaccine could drive the VIX index, which is a gauge of fear in the market, below 20. However, a vaccine will not be meaningfully rolled out globally until the second quarter of 2021 and thus we are not complacent about current VIX levels, which are at August 2020 levels. This would warrant a cautious tone amid rising virus cases around the world and more restrictions on mobility. Thus, we did some rebalancing into our positioning in the market.

Macro: The Vaccine Injected Hope

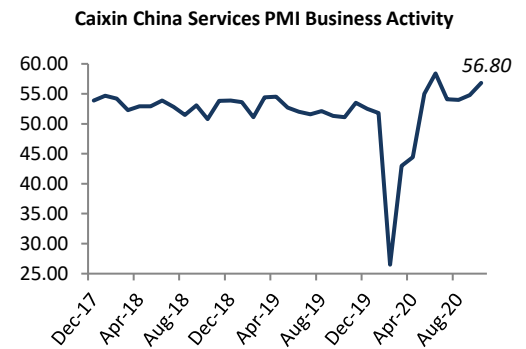
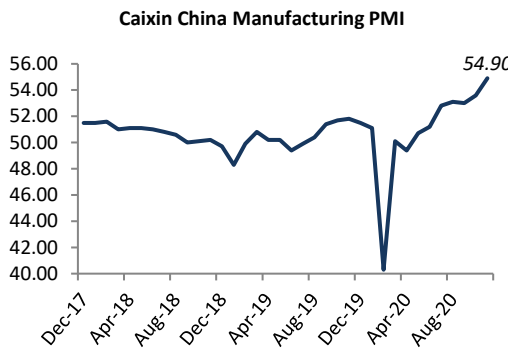


It is obvious that a resurgent virus is taking its toll on economic activity and data. It has been felt in labor data in the U.S., which ticked higher, and this is being amplified with the absence of a new stimulus package. Consumer confidence indices are showing weakness while retail spending exhibited signs of deceleration. The approval of a vaccine and the process of immunizing people will provide support into the second quarter of 2021.



Source: Bloomberg, Capital Investments

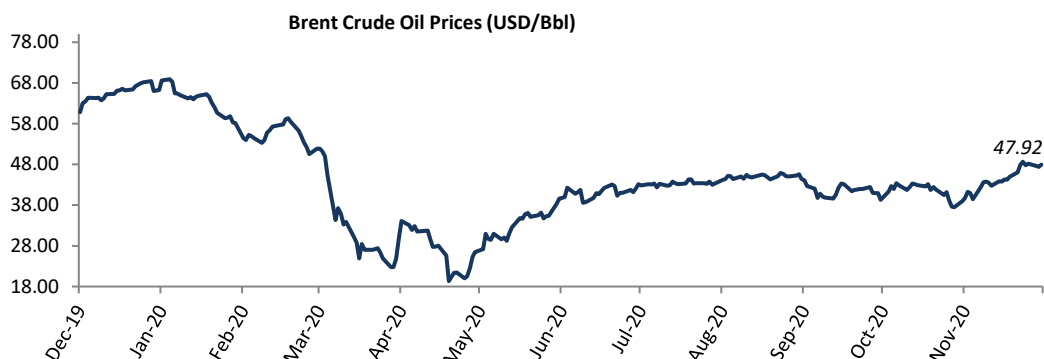
Economic data for Q3 and the first half of Q4 in Europe showed that the recovery was on track and in a healthy pace. Then the European economy retreated in the face of a second wave and it is fair to price in a W recovery in the old continent as Q4 2020 and the first half of Q1 2021 will be economically weak despite the recent easing of mobility restrictions in certain countries.



Source: Bloomberg, Capital Investments

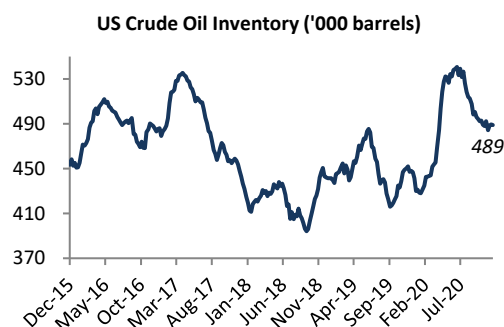
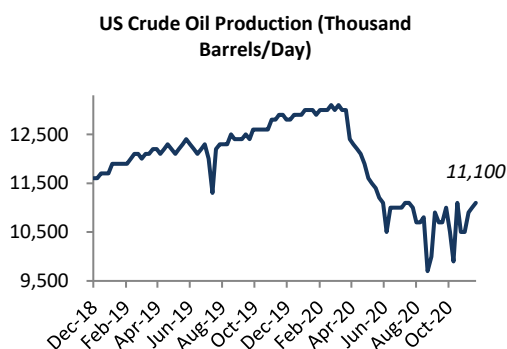
The Chinese economy is recovering at a healthy pace led by manufacturing, export activity and targeted infrastructure stimulus. This shall lead to a recovery in employment; however, we think that a vaccine is a must to get a sustainable recovery especially that the sectors that are vaccine sensitive such as transport, tourism or commercial leasing are still on the back foot.

Oil: Vaccine Has Provided Some Relief...The Ball is in OPEC’s Court



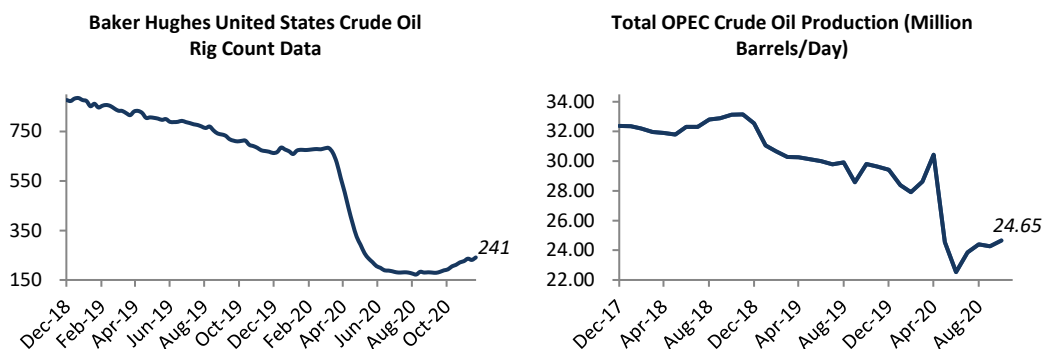
Source: Bloomberg, Capital Investments

Oil prices experienced their biggest monthly gain since May during the month of November on the back of three Covid-19 vaccine breakthroughs which set the expectations for a quick recovery in energy demand in 2021. Prices were also supported by the triggering of a formal transition process to U.S President-elect Joe Biden. Whilst the resurgence of the coronavirus in the US and Europe had kept prices in check throughout November, oil futures came under more pressure this week after a panel of OPEC+ ministers could not reach an agreement on whether to delay January’s oil-output increase.



Source: Bloomberg, Capital Investments

OPEC+’s failure to reach an agreement came as a surprise to the market as a clear majority of OPEC+ watchers were expecting the group to extend their production curtailment for a few months longer due to the uncertainty about the strength of demand. While most participants supported maintaining the production curbs, the United Arab Emirates and Kazakhstan were opposed it, delaying the group’s meeting till Thursday. Should the OPEC+ fail to agree to delay their output increase, they will restart about 1.9 million barrels a day of halted production in January, potentially pushing the global market back into surplus.



Source: Bloomberg, Capital Investments

According to the International Energy Agency (IEA), the vaccine progress will not provide a significant boost to demand until H2 2021, and the agency has warned that OPEC+ boosting their output in January would lead supply outweighing demand. Owing to the resurgence of Covid-19 infections in Europe and the US, the Paris-based agency also further revised its 2020 outlook for global oil demand downward by 400K barrels per day (bpd). Although it revised its demand growth outlook for 2021 upward, the figure still represents a drop of 3 million bpd below pre-pandemic levels in 2019. Nonetheless, demand in Asian continues to show some signs of recovery, whereby Chinese and Indian refiners have issued several crude buy tenders for loading in January.

On the supply side, OPEC's November output increased by 750K bpd, boosted by the resumption in Libya's production. Meanwhile, last week's crude inventories decreased by only 0.679M, versus an analyst forecast of a 2.36M draw.

Although the vaccine news is positive, it should be digested with some caution as the fundamentals have not changed in the short-term. We therefore expect the lockdowns versus vaccines tug of war to keep oil prices volatile in the coming weeks.

MENA: UAE Accelerating Pace of Reforms, Stocks Remain Laggard

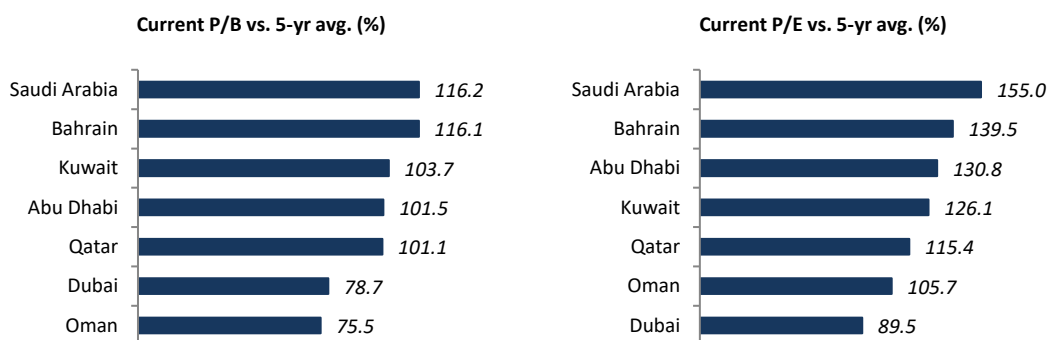
The UAE has seen the greatest number of reforms in recent months and its stock market remains one of the cheapest among its peers.

Table 1: UAE most recent reforms

Area	Reform
Foreign Direct Investment	Foreign nationals allowed to own 100% of commercial companies within the country (excluding strategically important sectors, such as oil and gas exploration, utilities and transport, as well as to state-owned entities)
Corporate Governance	Chair and senior executives can be removed in the event of fraud, shareholders can sue companies for failure of duty that results in damages
Expatriate Residency	Expansion of the 'golden visa' scheme (10-year visas) now offered to a wider range of professionals and high net worth individuals; 5-year visas for real estate investors, entrepreneurs, and students; broader category for professionals to sponsor visas for their families, 1-year extensions for dependents of the deceased, virtual visas to attract remote workers
Social and Family Law	Amendments covering divorce, decriminalization of alcohol, cohabitation of unmarried couple, inheritance of non-Emiratis to be in accordance with the laws of their home countries, a Good Samaritan law, tougher punishment for harassment
Job Market Flexibility	New freelancer license for 48 activities in Abu Dhabi introduced to increase flexibility and reduce the cost of doing business
Cashless Transactions	Set up a 'Cashless Dubai Working Group' to prepare an action plan with the intention is to shift all payment transactions in Dubai to secure and easy-to-use cashless platforms

Source: The National, Bloomberg, Capital Investments

UAE stocks have lagged emerging market stocks since March and while the market's significant exposure to cyclical sectors, including leisure, tourism, and financials, has been a burden during the Covid-19 pandemic, that same exposure will allow the country to benefit from the inevitable global reopening that will come with the adoption of the new vaccines. According to analysts at Morgan Stanley, the positive virus vaccine news remains far from priced, leaving the country's stocks "highly exposed to a broad recovery".



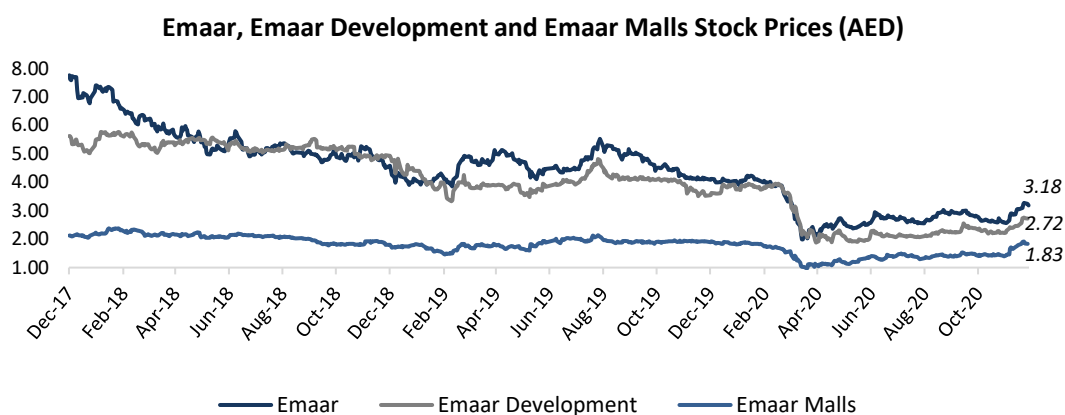
Source: Bloomberg, Capital Investments

This becomes evident when observing the price multiples of the region's markets. The graphs above show the ratio of the current multiple to its 5-year average (thus a number below 100% indicates that current multiple is below its 5-year average and vice-versa). Looking at Dubai in particular, current price-to-book ratio is still at 78.7% of its 5-year average, and its price-to-earnings ratio is at 89.5% of its 5-year average. The Dubai market can be starkly compared to the Saudi

market, which is currently trading at 16% above its 5-year price-to-book ratio and 55% above its 5-year average price-to-earnings ratio.

The UAE recently released its hotel occupancy rate and RevPAR (Revenue Per Available Room) numbers for October, which showed them at their highest levels since February. In Abu Dhabi specifically, hotel revenues rose by 46% in the third quarter, complemented by an 83% increase in footfall across malls and a 119% increase in airline bookings.

We expect the likes of Emaar Malls (completed assets) to reap the benefits of a recovery in the short term, it will be driven by a vaccine and increased footfall as tourism returns and Expo 2021 approaches. At a later stage, we can expect a recovery in Emaar Development (off-plan assets) as the most recent legal reforms could tempt refugee capital¹ back into the off-plan sector and aid the company in selling its backlog.



Source: Bloomberg, Capital Investments

The UAE government continues to treat the private sector as a true partner. Its initiatives including the extension of TESS, the removal of the fuel surcharge for electricity and water, the SME credit guarantee scheme, the new market-maker fund, the postponement of customs, along with the raft of legal and social reforms should ensure a sustainable rebound in the UAE economy.

We believe the reforms, in addition to the extension of TESS by the central bank, positive vaccine news and the upcoming Expo 2021, are good ingredients for economic recovery. However, the previously mentioned reforms are not enough to reverse the year-to-date performance of the market. Investors are waiting for a catalyst that will come in the form of continued improved economic activity indicators.

¹ Refugee capital typically comes from those who have high net wealth, high risk appetite, may not be end-users, desire an escape route should living conditions deteriorate in their country of origin, and may have sources of wealth which are not easily documented (which increases their tolerance for declines in capital value)

Major Indices	Status as of end		Performance	
	December. 2019	November. 2020	November.2020	YTD (30 November. 2020)
MENA				
Abu Dhabi	5,075.77	4,964.94	6.54%	-2.18%
Bahrain	1,610.18	1,477.51	3.53%	-8.24%
Dubai	2,764.86	2,419.60	10.59%	-12.49%
Egypt	13,961.56	10,943.35	4.07%	-21.62%
Jordan	1,815.20	1,573.46	1.42%	-13.32%
Kuwait	6,975.96	6,008.59	0.08%	-13.87%
Lebanon	785.56	600.48	-3.32%	-23.56%
Morocco	12,171.90	10,990.85	5.07%	-9.70%
Oman	3,981.19	3,643.52	2.41%	-8.48%
Palestine	525.96	462.78	6.36%	-12.01%
Qatar	10,425.51	10,262.10	5.89%	-1.57%
Saudi Arabia	8,389.23	8,747.09	10.61%	4.27%
Tunisia	7,122.09	6,822.53	4.08%	-4.21%
S&P Pan Arab Composite	788.75	762.57	7.84%	-3.32%
Dow Jones MENA	605.23	574.97	6.76%	-5.00%
Americas				
Dow Jones Industrial	28,538.44	29,638.64	11.84%	3.86%
S&P 500	3,230.78	3,621.63	10.75%	12.10%
NASDAQ Composite	8,972.60	12,198.74	11.80%	35.96%
S&P/Toronto Composite	17,063.43	17,190.25	10.33%	0.74%
Europe				
EURO Stoxx 50	3,745.15	3,492.54	18.06%	-6.74%
S&P Europe 350 Index	1,676.79	1,550.05	14.02%	-7.56%
FTSE 100 Index/ London	7,542.44	6,266.19	12.35%	-16.92%
FTSE MIB Index/ Italy	23,506.37	22,060.98	22.95%	-6.15%
DAX Index/ Germany	13,249.01	13,291.16	15.01%	0.32%
ASIA/Pacific				
NIKKEI 225/ Japan	23,656.62	26,433.62	15.04%	11.74%
S&P/ASX 200/ Australia	6,684.08	6,517.81	9.96%	-2.49%
BRIC				
Brazil/ Bovespa	115,645.30	108,893.30	15.90%	-5.84%
Russia/ RTS	1,548.92	1,281.97	20.19%	-17.23%
India/ Bombay Sensitive	41,253.74	44,149.72	11.45%	7.02%
China/ Shanghai Composite	3,050.12	3,391.76	5.19%	11.20%
Hong Kong/ Hang Seng	28,189.75	26,341.49	9.27%	-6.56%

Source: Bloomberg, Capital Investments

Description	Closing Prices as of end		Performance	
	December. 2019	November. 2020	November.2020	YTD (30 November. 2020)
Commodities (in USD)				
Brent Spot (Barrel)	66.42	47.17	27.83%	-28.98%
WTI Cushing Spot (Barrel)	61.06	45.34	26.68%	-25.75%
Natural Gas NYMEX (MMBtu)	2.72	2.88	-16.92%	5.96%
Gold Spot (OZ)	1,517.27	1,776.95	-5.42%	17.11%
Silver Spot (OZ)	17.85	22.64	-4.28%	26.84%
Copper LME Spot (MT)	6,149.00	7,569.25	12.85%	23.10%
Corn CBOT Active Month (Bushel)	4.11	4.26	5.64%	3.59%
Wheat CBOT Active Month (Bushel)	5.86	5.85	-2.50%	-0.17%
Soybean CBOT Active Month (Bushel)	9.81	11.69	10.63%	19.08%
Rough Rice Futures (USD/cwt)	13.14	12.56	0.24%	-4.42%
Currencies Spot Exchange Rates Against US Dollar				
Euro	1.12	1.19	2.40%	6.37%
GBP	1.33	1.33	2.90%	0.50%
CAD	0.77	0.77	2.38%	-0.14%
Yen	0.01	0.01	0.32%	4.14%
CNY	0.14	0.15	1.72%	5.84%

Source: Bloomberg, Capital Investments

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Capital Investments

Asset Management Department

Tel: +962 6 5200330 Ext. 2494 and 2373

AssetManagement@Capitalinv.com