

Monthly Newsletter

January 7th, 2021

"In solitude the mind gains strength and learns to lean upon itself." — Laurence Sterne

"Write what should not be forgotten." — Isabel Allende

Clues from Recent Asset Classes' Behavior

Macro: Rising Infection Rates Delaying the Recovery

Oil: Saudi Arabia to the Rescue

MENA: Qatar is Officially Un-blockaded... A Move Welcomed by Investors

Introduction

The new year has arrived full of aspirations that life will be back to normal. The rollout of the vaccine provided hope in the fight against Covid-19. People across the globe will be inoculated gradually and herd immunity will be achieved. Mobility will return to pre-coronavirus levels and economic activity will pick up.

Suddenly, the tunnel got darker, a new strain of the virus was discovered, to prove that the fight is tricky. The mutated virus is transmissible at a higher rate albeit less deadly. Hospitalization rates have already surpassed the peak reached in April 2020 and the vaccine formula may need some adjustments to deal with the new variant. Rising fears about the climbing infection rates led to extension of lockdowns or activity restriction measures in key regions of the world, denting the economic recovery in the first quarter of 2021 for the UK, Continental Europe, Japan and the US.

2021 started with few political inflection points and international compromises. A Brexit deal was struck in the end of 2020, the US approved around USD 1trn in extra fiscal stimulus and the European Union approved a Euro 1.8trn budget for the coming seven years.

OPEC+ agreed not to raise oil production till March while Saudi Arabia voluntarily decided to cut oil production by 1mln barrel a day for two months. Saudi Arabia provided another gift to markets as it restored its diplomatic relationship with Qatar along with UAE, Bahrain and Egypt, ending a three-and-a-half-year blockade.

In Georgia, US, Democrats won the senate race and gained the majority, paving the way for President Biden to execute his policy in terms of spending and tax raise and regulations, which will impact asset classes in 2021. Equities may witness a rotation towards value stocks, infrastructure and domestic plays initially as taxes and regulations may impact few tech giants, yields will climb higher in anticipation of further stimulus and the USD may lose ground as a result.

With expansionary policies in the background and easing geopolitical uncertainties globally, it is expected that 2021 will see a pickup in economic activity with the recovery gathering steam as governments contain the virus. Positive earnings revisions should happen down the line and any correction in markets will be a necessary pause to gather steam and an opportunity to buy and re-deploy capital.

We favor equities over bonds, especially fixed income papers with long duration, as there are not enough returns to chase with USD 18trn in negative yielding assets (record high) around the world and meagre diversification benefits. Oil and commodities are set to benefit from higher mobility, demand pick up and expansionary policies as we go back to normal. Gold will be a good diversifier and an inflation hedge, while sectors tilted towards infrastructure, recovery and reopening and thus a high correlation with the vaccine rollout are expected to do well.

On a separate note in this newsletter we will provide some insight on the emerging of Hydrogen as a clean energy source.

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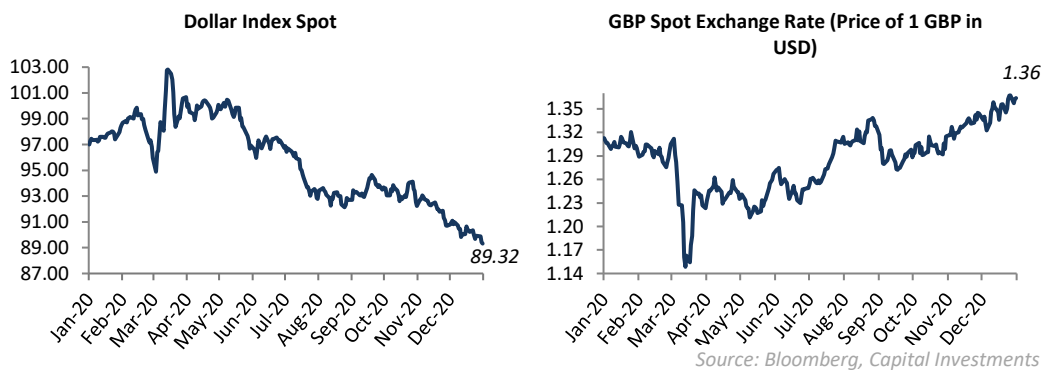
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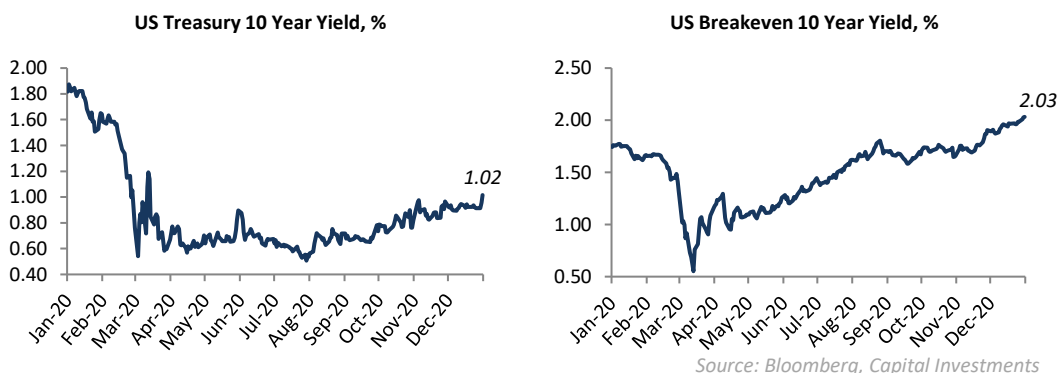
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Clues from Recent Asset Classes' Behavior



A combination of expansionary fiscal policies and loose monetary policy are driving the USD lower, this trend is expected to continue into 2021 as the new governing administration in the US is looking to reduce the trade deficit and restore lost jobs through a weak currency channel. Despite rising infection rates in the UK, the GBP is benefiting from the rollout of the vaccine, less uncertainty due to the Brexit deal struck in December 2020 and a soft trend in the greenback.



US long term yields are ticking higher despite restriction measures. The 10-year yield broke the 1% level for the first since March 2020. This is driven by the recently approved fiscal stimulus and more importantly by the Democrats gaining majority in the Senate. The US breakeven 10-year yield is illustrating a better perspective of the investment audience by rising to above 2% for the first time since 2016, indicating that the market is pricing in a recovery and a pickup in inflation which would favor reflation trades notably cyclical and value plays and raise concerns about duration in the fixed income segment. A significant spike in yield may hit equity markets which may warrant a dynamic rebalancing from investors.

Bloomberg Barclays Global Aggregate Negative Yielding Debt Index (Market Cap in USD Trillion)



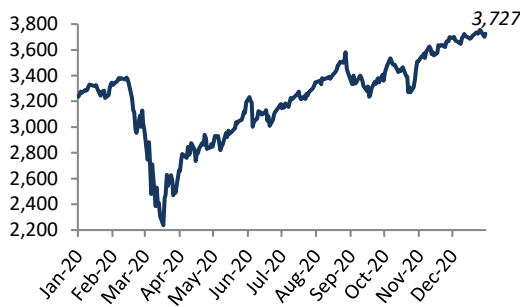
Bloomberg Barclays US Corporate High Yield Average OAS



Source: Bloomberg, Capital Investments

Fixed income investing is becoming trickier in 2021 as negative yielding assets are at record high, yields offered by high yield corporates contain little juice. A recovery may reduce credit risk, but a sudden spike in yields due to optimism around reopening in Q2 and a Blue Wave in the US (Democrats winning both the Lower House and the Senate) may reshuffle the investment paper.

S&P 500 Index



MSCI Emerging Markets ETF



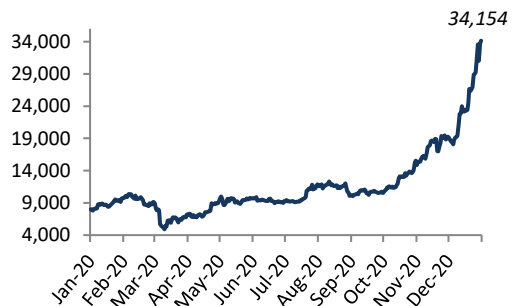
Source: Bloomberg, Capital Investments

US equity markets look overstretched from a valuation perspective, sectorial rotation is set to occur and any correction will be a pause as the earnings outlook for 2021 is still optimistic despite the slowdown occurring in Q1 due to the resurgence of the coronavirus and more lockdowns in different parts of the world. Emerging markets are set to benefit from expansionary policies and the rollout of the vaccine, especially that they have a high delta to mobility.

Gold (\$ per Troy Ounce)



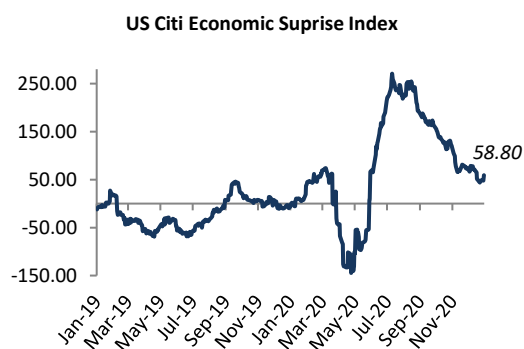
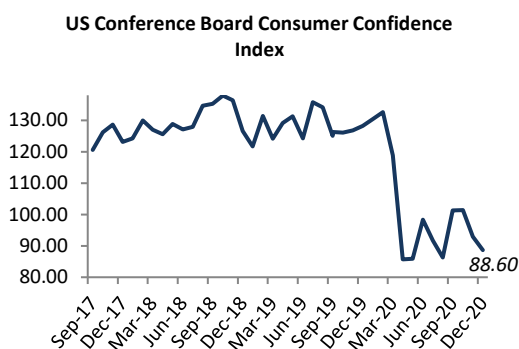
Bitcoin (Price of 1 XBT in USD)



Source: Bloomberg, Capital Investments

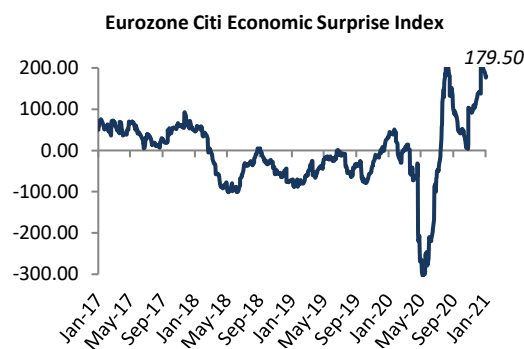
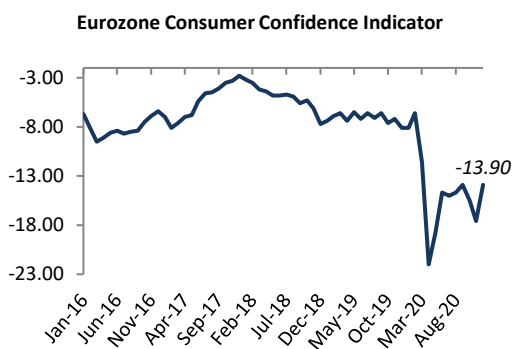
Gold and Bitcoin are both plays against currency debasement and inflationary pressures. The rally in Bitcoin is much more significant due to its limited supply because the new asset class is gaining a broader audience relative to gold. We continue to like gold and silver and we are invested in miners as supportive monetary policies and expansionary fiscal measures should support the currencies into 2021.

Macro: Rising Infection Rates Delaying the Recovery



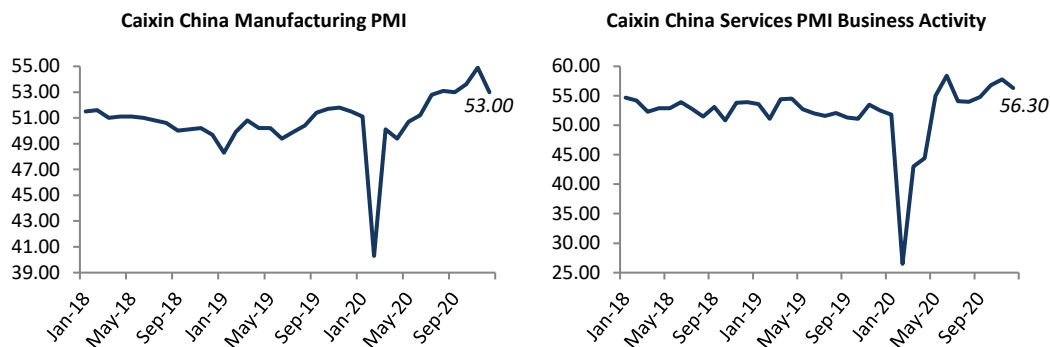
Source: Bloomberg, Capital Investments

Data in the US shows that Q4 started on a positive note before the deceleration in economic activity on the back of the resurgence of the virus and the delay in approving a new fiscal stimulus in the country.



Source: Bloomberg, Capital Investments

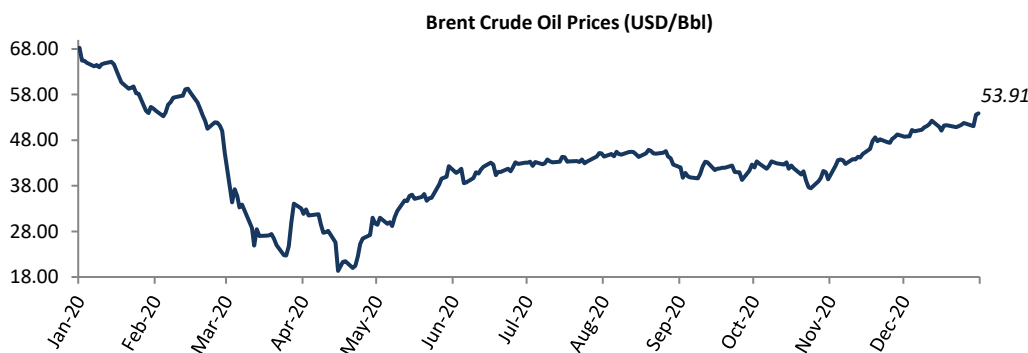
In Europe the slowdown is much more significant as the lockdown was stricter than any other place in the world. However, European equities are rejoicing the Brexit deal, a union budget of Euro 1.8trn, and Biden’s presidency that is assumed to be pro-Europe and multilateral agreements.



Source: Bloomberg, Capital Investments

China’s economic performance has been phenomenal in the aftermath of the great lockdown and since Q2 2020, China has been recovering without a vaccine and at a faster pace than any other economy. This was reflected in the performance of its equities. Data recently released from China show some softness as the effect of the stimulus seems to be cooling down a bit. We continue to like China as it was among the first countries to control the pandemic, but it is worth having a look at other emerging market plays as well such as Brazil, India, Thailand, Indonesia, and Korea to name a few. Investors will watch how the de-listing process of Chinese companies from US exchanges will evolve.

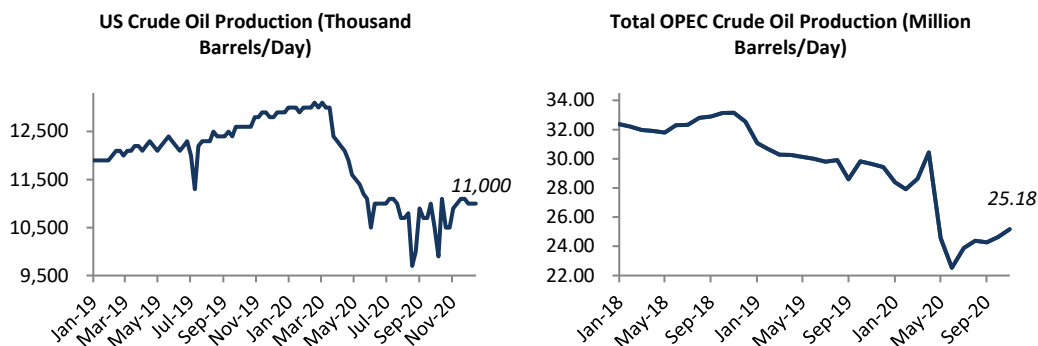
Oil: Saudi Arabia to the Rescue



Source: Bloomberg, Capital Investments

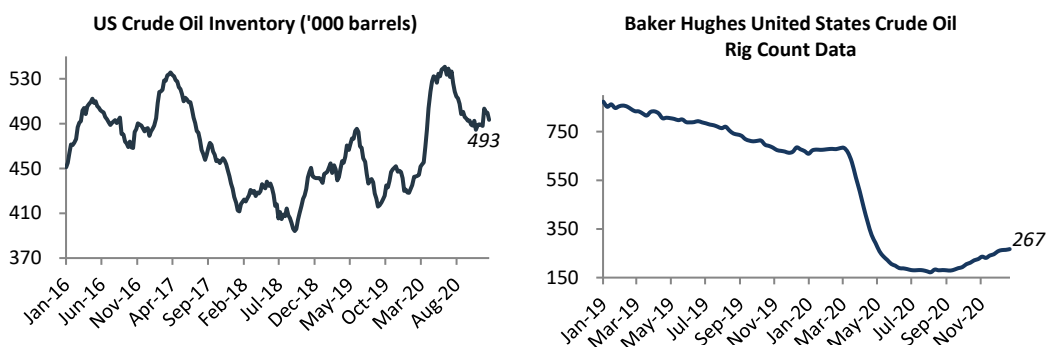
Thanks to Saudi Arabia, oil prices kicked off 2021 on a strong note after the country agreed to unilaterally cut its crude oil production by a million barrels a day during February and March. This OPEC+ deal comes after talks were suspended over whether to raise output, with most members but Russia opposed to increasing oil output again in February. The new agreement was welcomed

as a “new year gift” to oil markets, pushing prices higher as they slowly approach their pre-pandemic levels.



Source: Bloomberg, Capital Investments

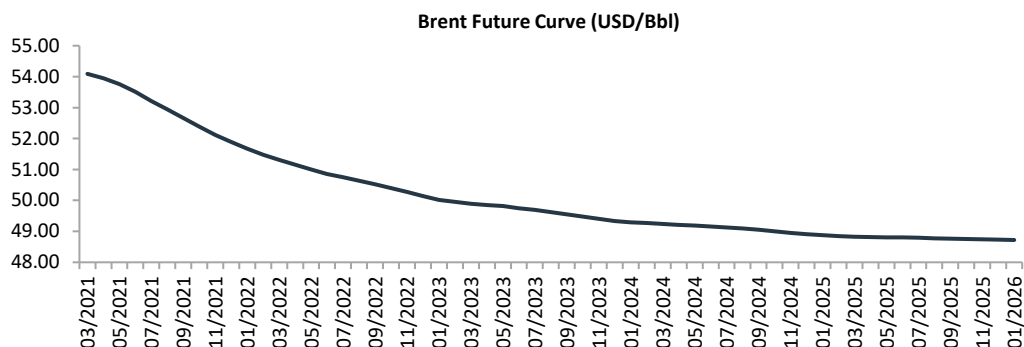
Throughout the month of December, oil prices reached 9-month highs on rising prospects of vaccine rollouts and on the back of OPEC+ reaching a compromise agreement to ease oil-output in January. The agreement involves adding 500,000 barrels a day of production to the market in January and to hold monthly meetings to decide on subsequent moves. However, gains were kept in check due to near-term demand risks as the pandemic resurges across the globe and as the discovery of a mutated variant of the coronavirus in the UK, which is said to be 70% more transmissible, raised the likelihood of further restrictions on movement. Pessimism over the mutated virus however was later balanced by the passage of a \$900 billion U.S. stimulus bill into law that is expected to boost energy demand in the world’s largest economy.



Source: Bloomberg, Capital Investments

China and some parts of Asia continue to show some recovery in demand. China processed a record amount of crude on a daily basis in November as fuel consumption recovered, whilst buying by Chinese and Indian refiners indicate Asian physical demand will likely remain supported for another month. This recovery in demand was also evidenced by a much bigger-than-expected drop in U.S. crude inventories, whereby stockpiles fell by 6.1 million barrels versus an analyst forecast of 2.58 million barrels.

Nonetheless, OPEC sees plenty of downside risks for oil markets in the first half of 2021. The secretary general of the group said that the global economy could strongly rebound in the second half of 2021 but sectors such as travel, tourism, leisure and hospitality could take years to reach pre-virus levels. He also said OPEC now expected global oil demand to be led by developing countries and to rise to 95.9 million b/d in 2021, or by 5.9 million b/d from 2020, as the global economy is forecast to grow by 4.4%.

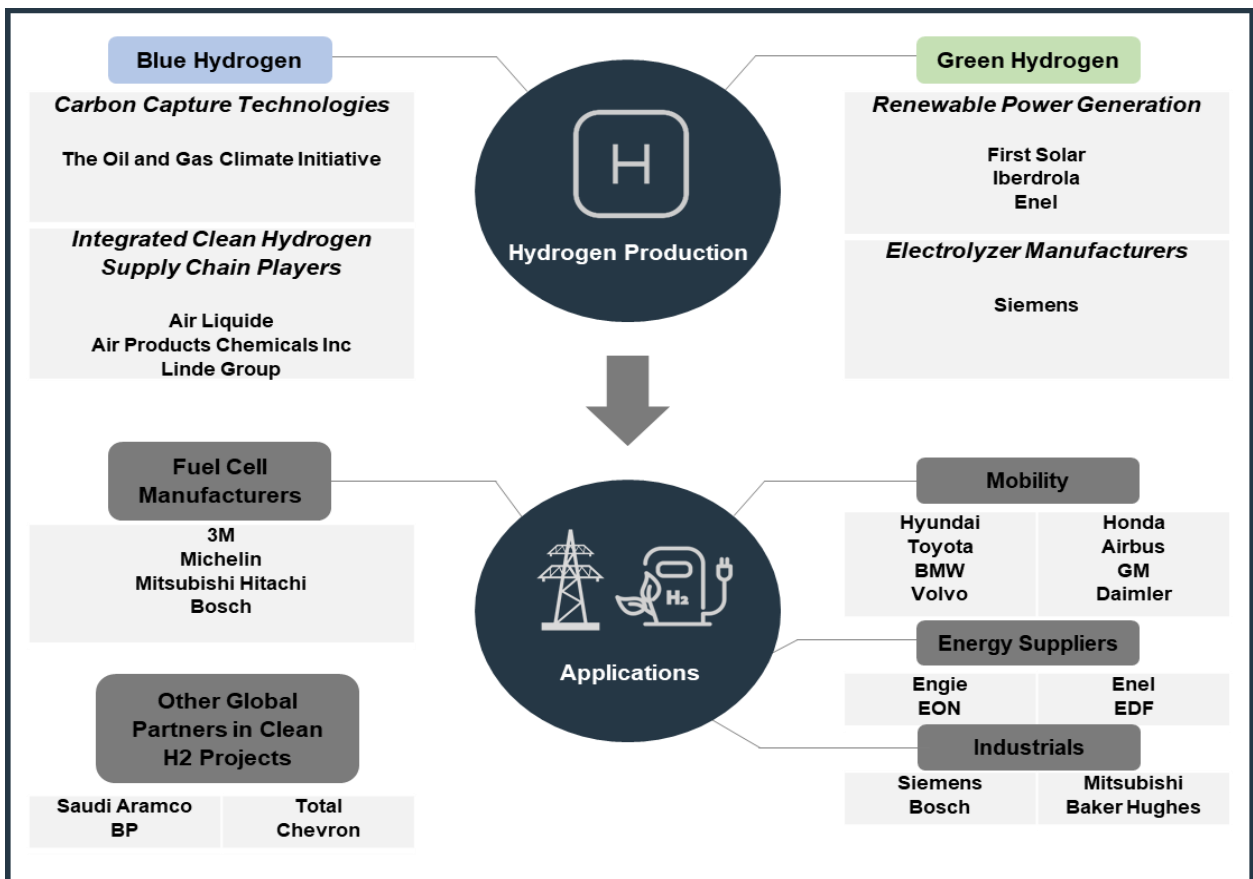


Source: Bloomberg, Capital Investments

Oil prices ended a turbulent year lower, with both the WTI and Brent crude benchmarks losing more than a fifth of their values in 2020. While concerns about near-term demand are still weighing on sentiment, the oil futures curve, which is currently in backwardation, is signaling that investors are more comfortable about the outlook for 2021.

Diagram 1: Clean Hydrogen

Hydrogen is a versatile energy carrier that can be produced from a wide range of sources and used in many ways across the entire energy sector. Its traditional form, also known as ‘grey’ hydrogen, is produced from natural gas which generates significant carbon emissions. ‘Blue’ hydrogen is a cleaner version for which the carbon emissions are captured and stored or reused. The cleanest form, ‘green’ hydrogen, is generated by renewable energy sources without producing any carbon emissions at all. The need to switch to ‘blue’ and ‘green’ hydrogen is imminent as they have 90-100% lower carbon intensity than ‘grey’ hydrogen, and Clean Hydrogen could play a vital role in the de-carbonization of 45% of global anthropogenic emissions.



Source: Goldman Sachs, Capital Investments

Although Clean Hydrogen is currently costly to produce, the rise of large-scale investments in renewable power and carbon capture, which could reach \$16 trillion by 2030, are closely associated to its cost improvement. Clean Hydrogen will play a key role in the world’s transition to sustainable energy as it will help reduce carbon emissions from industry and heavy transport and will provide long-term energy storage.

MENA: Qatar is Officially Un-blockaded... A Move Welcomed by Investors

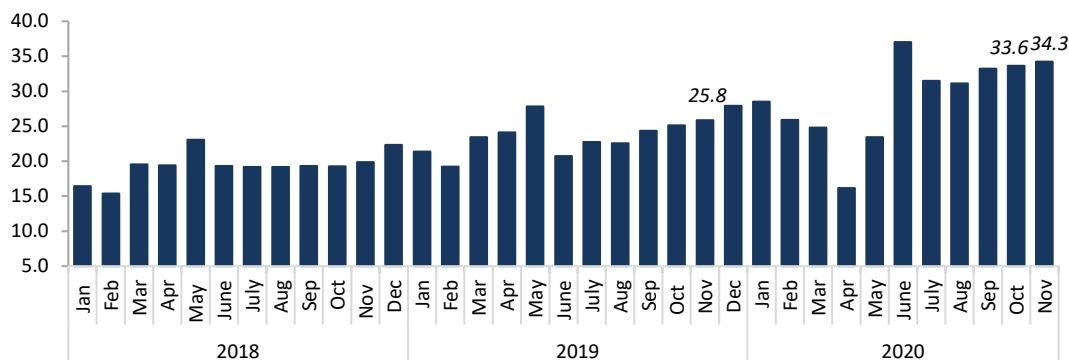
Saudi Arabia, the UAE, Bahrain and Egypt signed an agreement to restore diplomatic ties with Qatar, ending a three-and-a-half-year blockade. Saudi Foreign Minister, Prince Faisal bin Farhan, affirmed that all outstanding issues including diplomatic relations, flights, and trade will be going back to normal, which should strengthen local financial markets. The opening of borders between the abovementioned countries will revive joint infrastructure projects and is also to the benefit of major upcoming events such as the Dubai Expo, scheduled for October 2021, and the World Cup in Qatar, to be held in November of the following year. In more positive news, Saudi Arabia also gave a “new year gift” to the oil markets by offering voluntary cuts to its oil production by 1 million more barrels per day in February and March in the latest OPEC+ meeting.

The Qatar resolution, the gradual reopening of regional and global economies following the rollout of the vaccine, in addition to major upcoming events mentioned above should provide a boost to the tourism, airlines, and consumer sectors through increased mobility of goods and people. Some stocks set to benefit in the near term include the Emaar family. In 2016, Qataris made up 7% of total Dubai tourists, a return of which would represent significant footfall in malls, hotels, and restaurants. In terms of real estate transactions, Qataris represented 4% of total transactions. The potential for a pickup in these transactions is skewed to the upside as new build areas like Emaar Beach Vista, Dubai Hills, and District 1 may prove to be attractive investments.

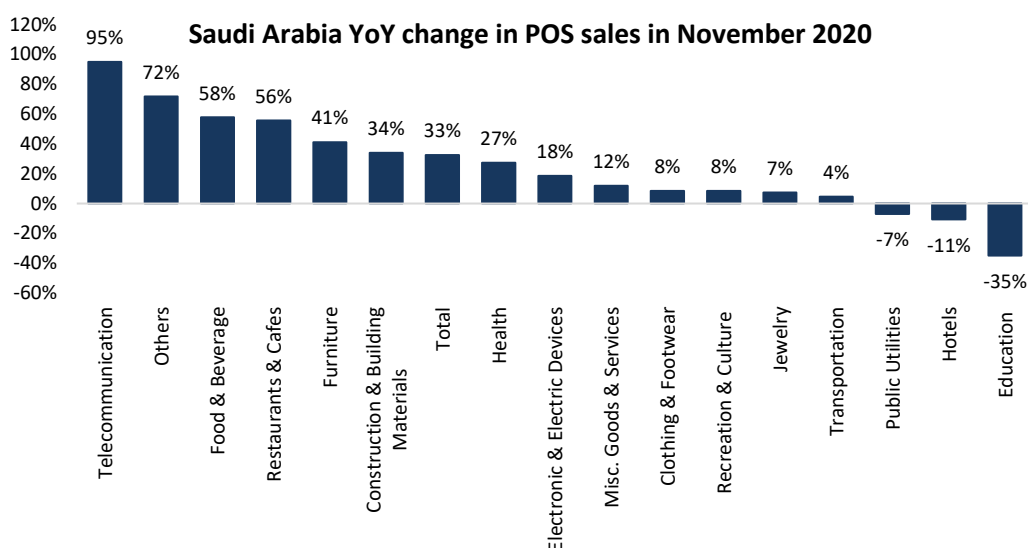
The Qatar resolution is supportive of logistics players as Qatar-GCC trade will bolster container shipping volumes and thus companies such as Milaha and Nakilat and Aramex. In air travel, Air Arabia should be another beneficiary of increased mobility.

Al Marai, in particular, took a beating when relations with Qatar deteriorated, as revenues from the neighboring country made up 5% of its top line. The stock’s price rose nearly 4% in intraday trading on the day of the announcement on expectations of a recovery in its exports to Qatar.

Saudi Arabia POS Sales (SAR Bn)



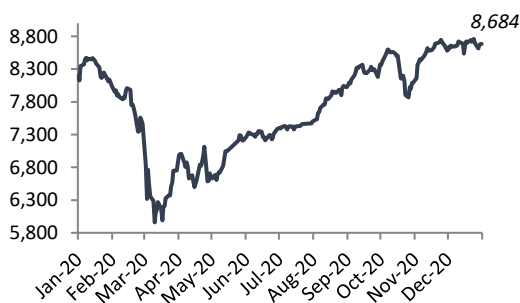
Saudi Arabia YoY change in POS sales in November 2020



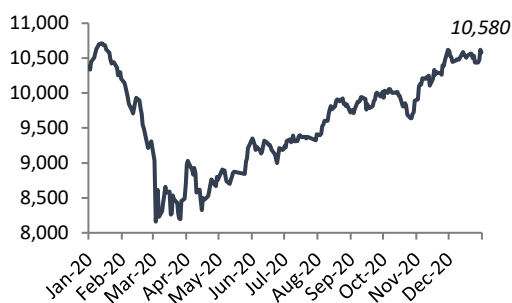
Source: SAMA Monthly Statistical Bulletin, Capital Investments

Saudi Arabia released its November statistical bulletin which showed point of sale (POS) transactions up by almost 33% year-on-year in November, and by 2% month-on-month, reflecting optimism in the private sector following news of a vaccine rollout in the kingdom. The recent raft of positive news including the Qatar resolution could act as the catalyst to revive some depressed sectors including hotels, transportation, recreation & culture and clothing & footwear.

Tadawul All Share Index



Qatar Exchange Index



Source: Bloomberg, Capital Investments

Major Indices	Status as of end		Performance	
	December. 2019	December. 2020	December.2020	YTD (31 December. 2020)
MENA				
Abu Dhabi	5,075.77	5,045.32	1.62%	-0.60%
Bahrain	1,610.18	1,489.78	0.83%	-7.48%
Dubai	2,764.86	2,491.97	2.99%	-9.87%
Egypt	13,961.56	10,845.26	-0.90%	-22.32%
Jordan	1,815.20	1,657.22	5.32%	-8.70%
Kuwait	6,975.96	6,051.07	0.71%	-13.26%
Lebanon	785.56	657.89	9.56%	-16.25%
Morocco	12,171.90	11,287.38	2.70%	-7.27%
Oman	3,981.19	3,658.77	0.42%	-8.10%
Palestine	525.96	471.26	1.83%	-10.40%
Qatar	10,425.51	10,435.96	1.69%	0.10%
Saudi Arabia	8,389.23	8,689.53	-0.66%	3.58%
Tunisia	7,122.09	6,884.93	0.91%	-3.33%
S&P Pan Arab Composite	788.75	769.49	0.91%	-2.44%
Dow Jones MENA	605.23	581.51	1.14%	-3.92%
Americas				
Dow Jones Industrial	28,538.44	30,606.48	3.27%	7.25%
S&P 500	3,230.78	3,756.07	3.71%	16.26%
NASDAQ Composite	8,972.60	12,888.28	5.65%	43.64%
S&P/Toronto Composite	17,063.43	17,433.36	1.41%	2.17%
Europe				
EURO Stoxx 50	3,745.15	3,552.64	1.72%	-5.14%
S&P Europe 350 Index	1,676.79	1,585.57	2.29%	-5.44%
FTSE 100 Index/ London	7,542.44	6,460.52	3.10%	-14.34%
FTSE MIB Index/ Italy	23,506.37	22,232.90	0.78%	-5.42%
DAX Index/ Germany	13,249.01	13,718.78	3.22%	3.55%
ASIA/Pacific				
NI KKEI 225/ Japan	23,656.62	27,444.17	3.82%	16.01%
S&P/ASX 200/ Australia	6,684.08	6,587.10	1.06%	-1.45%
BRIC				
Brazil/ Bove spa	115,645.30	119,017.20	9.30%	2.92%
Russia/ RTS	1,548.92	1,387.46	8.23%	-10.42%
India/ Bombay Sensitive	41,253.74	47,751.33	8.16%	15.75%
China/ Shanghai Composite	3,050.12	3,473.07	2.40%	13.87%
Hong Kong/ Hang Seng	28,189.75	27,231.13	3.38%	-3.40%

Source: Bloomberg, Capital Investments

Description	Closing Prices as of end		Performance	
	December. 2019	December. 2020	December.2020	YTD (31 December. 2020)
Commodities (in USD)				
Brent Spot (Barrel)	66.42	51.17	8.48%	-22.96%
WTI Cushing Spot (Barrel)	61.06	48.52	7.01%	-20.54%
Natural Gas NYMEX (MMBtu)	2.67	2.54	-11.38%	-5.05%
Gold Spot (OZ)	1,517.27	1,898.36	6.83%	25.12%
Silver Spot (OZ)	17.85	26.40	16.60%	47.89%
Copper LME Spot (MT)	6,149.00	7,749.00	2.37%	26.02%
Corn CBOT Active Month (Bushel)	4.11	4.84	13.62%	17.69%
Wheat CBOT Active Month (Bushel)	5.86	6.41	9.49%	9.30%
Soybean CBOT Active Month (Bushel)	9.73	13.11	12.10%	34.81%
Rough Rice Futures (USD/cwt)	13.14	12.40	-1.23%	-5.60%
Currencies Spot Exchange Rates Against US Dollar				
Euro	1.12	1.22	2.42%	8.94%
GBP	1.33	1.37	2.60%	3.12%
CAD	0.77	0.79	2.16%	2.01%
Yen	0.01	0.01	0.97%	5.15%
CNY	0.14	0.15	0.80%	6.68%

Source: Bloomberg, Capital Investments

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