

## Monthly Newsletter

February 3<sup>rd</sup>, 2021

*"Pity the nation divided into fragments, each fragment deeming itself a nation." — Gibran Khalil Gibran*

*"All bad precedents begin with justifiable measures." — Julius Caesar*

### Clues from Recent Asset Classes' Behavior

**Macro: Q1 Data Getting Darker**

**Oil: Emerging Signs of a Tightening Market**

**MENA: Dubai in 5 Charts**

### Introduction

A slew of negative news ranging from rising infection rates to reimposition of lockdowns and restriction on mobility, coupled with declining confidence indicators along with weakness did not derail the rally in equity markets that has been taking place since November 2020, that was reinforced when Pfizer announced encouraging data about the efficacy of its vaccine against coronavirus. The riots in Washington DC, rising virus waves and bombardment of bad economic data could not move a needle in the roaring market but the fissures came from within the structure of the market players.

The "Reddit"/ "Short Squeeze" dynamic was a historic moment that caught the attention of investors as well as the public in general. The ball started rolling when a legion of small retail investors were able to make a big move in the stock price of GameStop, a videogame retailer, which saw its stock price climbing from around \$19 at the start of the year to as much as \$500 at one point before retreating to around \$90 at the time of writing. In a nutshell, retail investors on online forums saw that GameStop was one of the most 'shorted' shares and concluded that if some of them coordinated a buying action, they could move the stock higher. It also happened to be that all of them had the same opinion about a certain stock; expectations are self-fulfilled as the wisdom of the crowd came into play. This action of mass buying took key Hedge Fund managers by surprise and created significant losses for large players in Wall Street.

Beyond the political polarization created by this move in terms of the "us vs them" slogan, major trend shifts are taking place and cannot be ignored. Retail investors cannot be cornered anymore into passive investing in ETFs. Last year alone, US brokers added around 10mln new retail trading accounts, coupled with a move toward zero trading commissions through certain platforms which unlocked a large wave of wild activity. US retail trading constituted less than 15% versus 20% now. In some ways, this might turn trading into gambling but, regardless, we have a reality on the ground. Rising volatility will make risk managers nervous and will push asset managers to de-risk or rebalance after seeing large players falling or dumping shares to recover from the short squeeze. This may also trigger a rising tide of credit and other risks as many institutions start to call on their liquidity lines to meet requirements. The game is not only built on fundamental and technical analysis, but also on the changing mood and behavior of the crowd.

We are trying to adopt a cautious tone, by buying quality names during the dip and rebalancing our portfolios dynamically, keeping a decent portion in cash to provide us with protection and the tactical optionality lever. We share the IMF's positive outlook in 2021 especially in the second half when issues related to vaccine supply chain and deployment are significantly resolved. This should favor mobility and inflation-sensitive opportunities especially now that the US Fed balance sheet is up from around USD3.5trn to USD 7.5trn in the aftermath of the coronavirus crisis, and that the new administration in Washington DC is willing to act big. While we focus on cyclical and infrastructure plays, we have a focus on new long- term trends related to renewable and 5G related activities along with the revival in auto demand. Gold and Silver miners continue to be core to our strategy.

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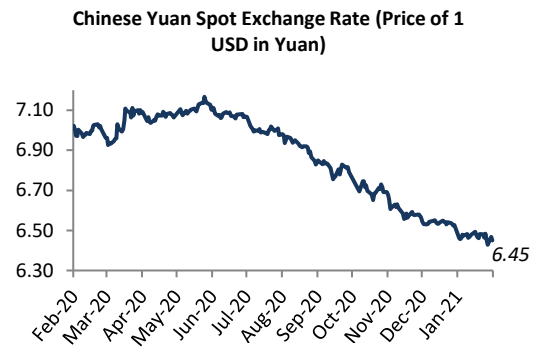
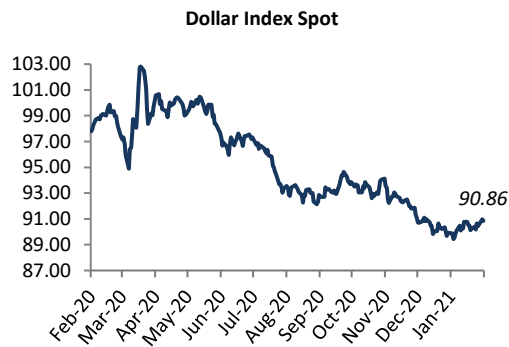
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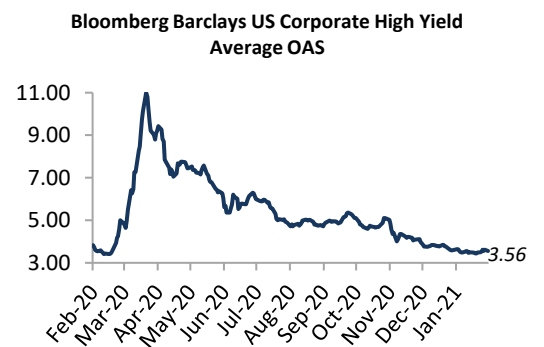
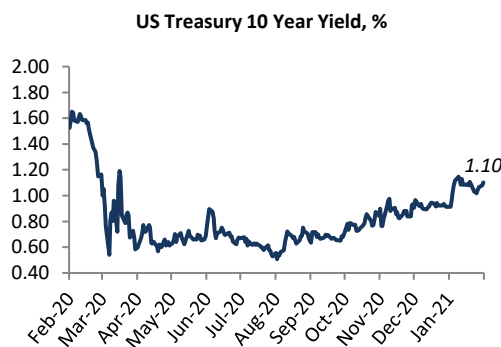
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### Clues from Recent Asset Classes' Behavior



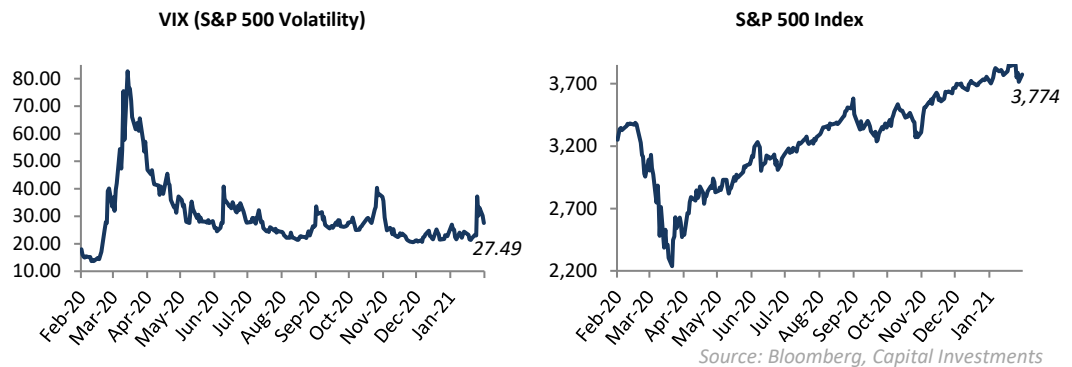
Source: Bloomberg, Capital Investments

A combination of rising real yields and flight to safety along with news about potential cyclical support for the greenback on the back of a large US fiscal stimulus lent some support to the USD which has not yet reversed its downward trend despite the recent uptick. The big structural picture is in favor of further weakness but breaking a key support around 89 will not be easy. On a separate note, amid the retail trading frenzy, the market did not pay attention to the fact that China has injected liquidity to calm down a soaring repo rate. We continue to think that China will not exit its supportive monetary policy prematurely and will keep the Yuan steady as a hedging tool against rising inflationary expectations.

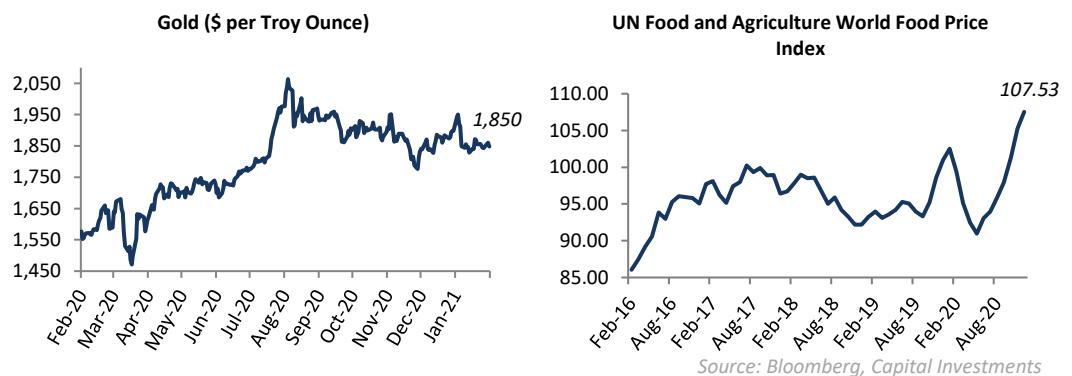


Source: Bloomberg, Capital Investments

The rise in the 10-year yield above the 1% level seems to be stalling on the back of a growing risk averse mood, delay in fiscal stimulus negotiations and in the vaccination rollout. We continue to think that yields are set to rise once the hurdle for a reflation trade is cleared which would warrant a cautious investment approach toward long duration. Credit spreads were in check lately as they widened along with the volatility in equity markets and on the back of news about losses incurred by large hedge funds. Some long duration high yielders suffered during this turmoil.

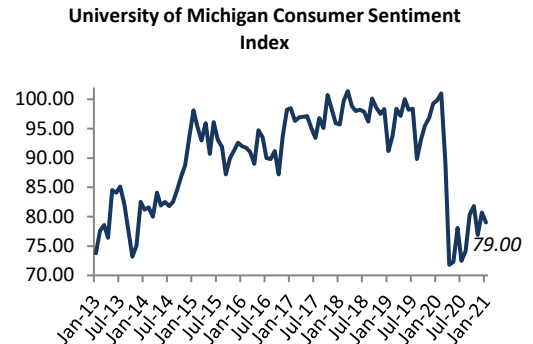
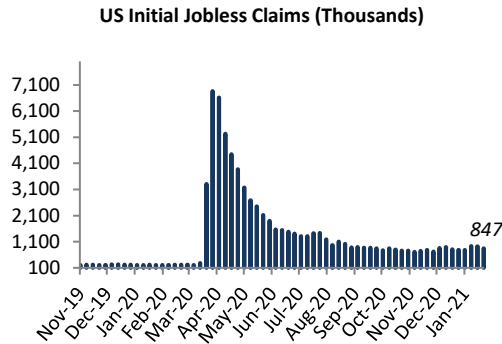


The VIX, or gauge of fear index, is capping any rebound in the stock market from reaching previous highs as investors adopt a cautious tone. We continue to see the possibility for further correction in equity markets amid volatility, however we are buyers of the dip as the progress on stimulus talks should support the market. If the month of January is a barometer for 2021, the lesson learned is that investors should be ready to deal with a volatile market that requires tactical rebalancing and dynamic movement.



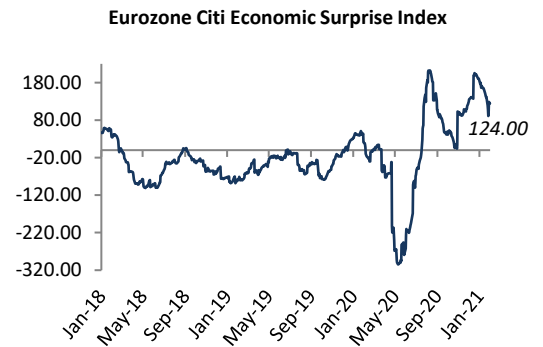
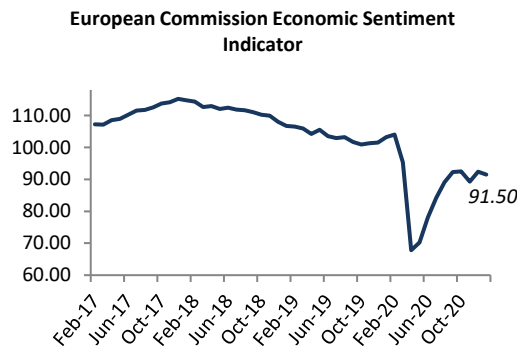
Gold has suffered recently from a strengthening USD and rising real yields as well as positive vaccine news that is limiting demand for safe-haven assets. We expect short-term (up to 5 years) real yields in the US to be in deep negative territory, which, along with stimulus talks and inflation pick up, would be supportive for gold prices. Speaking of inflation, we note that the rise in food prices, jump in container shipping costs, and the appreciation in industrial commodity prices should all lead to inflationary pressures down the road.

## Macro: Q1 Data Getting Darker



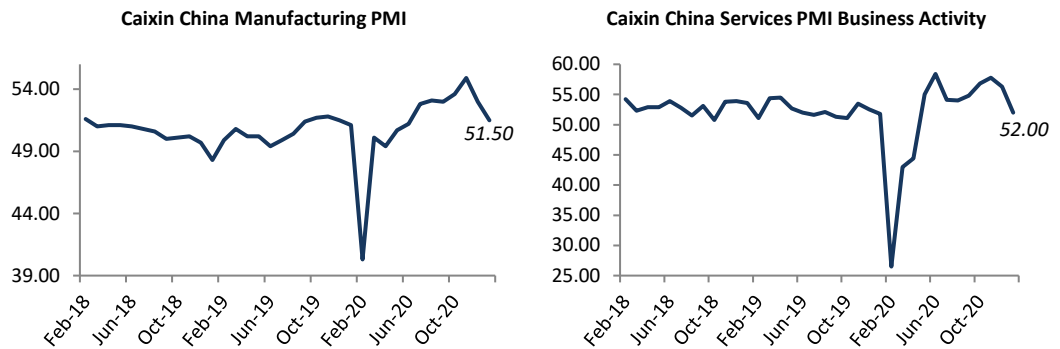
Source: Bloomberg, Capital Investments

The resurgence of coronavirus cases and delay in vaccine rollouts are affecting activity around the globe. The recent stimulus package approved in late December is providing some support to the US economy which managed to see a 4% growth in GDP in Q4 2020. However, investors are yet to see the confirmation of a positive reversal in key data, notably retail sales and sentiment, which are on a weaker trend since December of last year.



Source: Bloomberg, Capital Investments

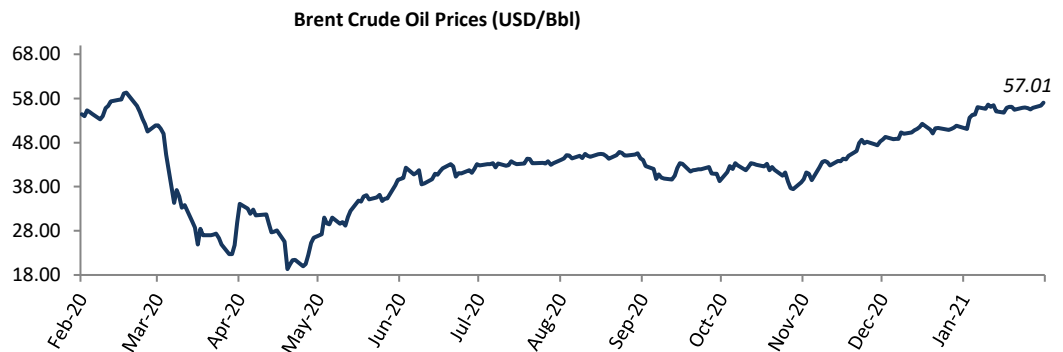
In Europe, the situation is not encouraging with strict lockdowns and slow inoculation, pushing Europe toward a double-dip recession in Q1. Equities stopped their ascent as a result of this deteriorating trend.



Source: Bloomberg, Capital Investments

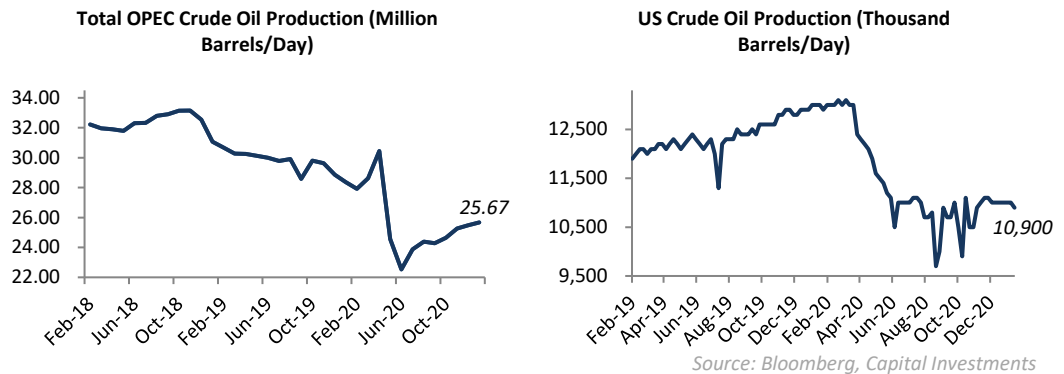
In China, the recovery seems to be taking a pause as indicated by the PMI data released for the past two months and as the Chinese lunar year holiday is approaching, we expect activity to decelerate further. The Chinese recovery is slowing down as the global economy is back on one foot in the first quarter of 2021 and as the authorities are adopting more targeted fiscal measures. We will be buying any retreat in Chinese equities as we like their cyclical plays.

### Oil: Emerging Signs of a Tightening Market

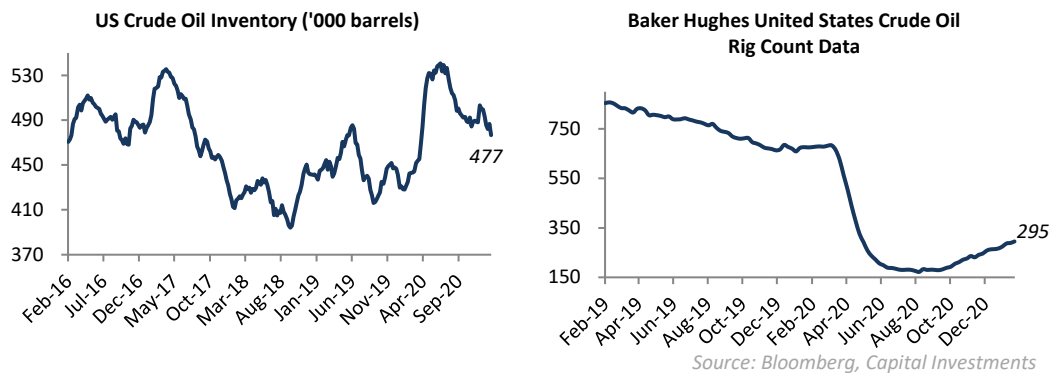


Source: Bloomberg, Capital Investments

Oil has surged almost 55% since the end of October after Covid-19 vaccine breakthroughs, with Saudi Arabia’s pledge to deepen output cuts over the next two months supporting the rally. Although prices were range-bound over the past couple of weeks, the oil market’s structure keeps strengthening, with backwardation growing in recent months, signaling market tightness.



As planned last month, OPEC improved their crude production, but this boost was compressed by disruptions at long-troubled member nations. The group raised output by 190,000 b/d as per their agreement to recover some of the supplies halted during the pandemic. Saudi Arabia’s additional million-barrel-a-day cut will last two months, then the supplies will return to the market. There are some other signs of contraction in supply elsewhere. Iraq pledged to pump less in January and February as it exceeded its quota last year, while oil exports were halted by Libyan guards after a pay disagreement

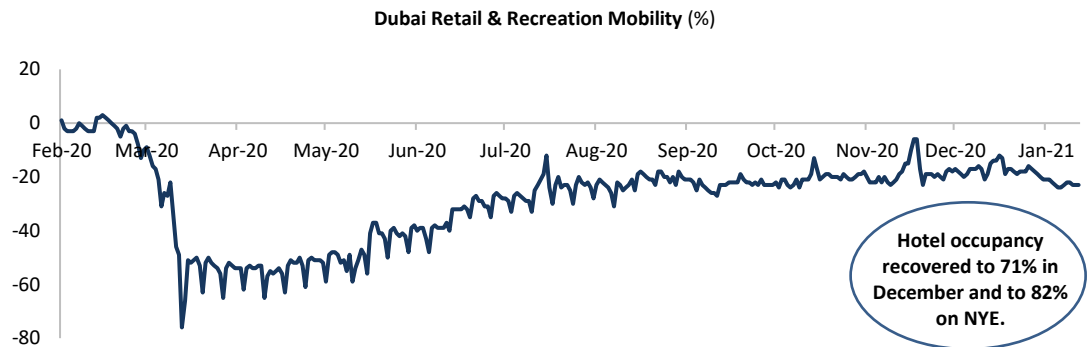


Market tightness is also evident in the US, whereby crude inventories dropped by nearly 10 billion barrels for the week ending Jan 22, the biggest decline in six months. It is expected that inventories dropped by 500k barrels last week, which, if confirmed, would be seventh weekly draw in eight weeks. Nonetheless, the International Energy Agency (IEA) has warned that as oil prices are on the rise, a “big chunk” of U.S. shale is profitable at current prices, signaling potential over-supply problems ahead.

The outlook is mixed on the demand side. On the one hand, Saudi Aramco has said that it sees demand returning to pre-virus levels later this year. On the other hand, the IEA cut its global oil demand estimate for Q1’21 by 600k barrels a day for as renewed lockdowns to contain the pandemic weigh on consumption. Moreover, demand in Asia is showing some signs of weakness as the coronavirus resurges in the region.

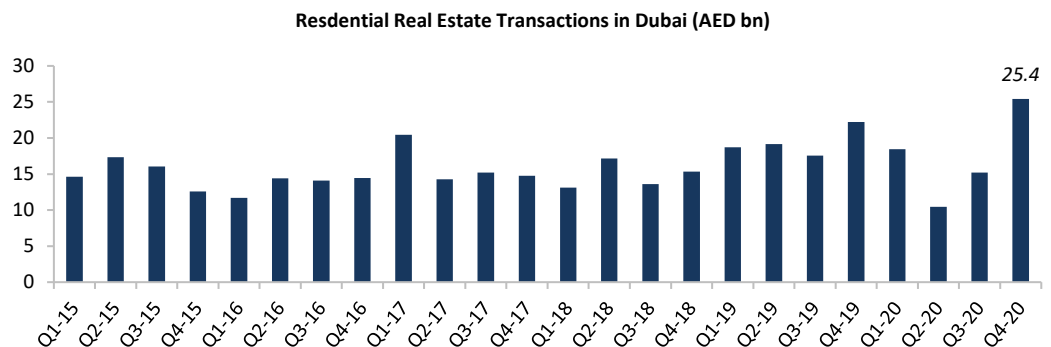
In the meantime, oil prices will remain subject to movements in the USD, economic data releases, as well as any updates on the US stimulus bill. Investors will also continue to weigh the rollout of the coronavirus vaccine and supply discipline against a worsening short-term demand outlook.

### MENA: Dubai in 5 Charts



Source: Google UAE Mobility Report, Capital Investments

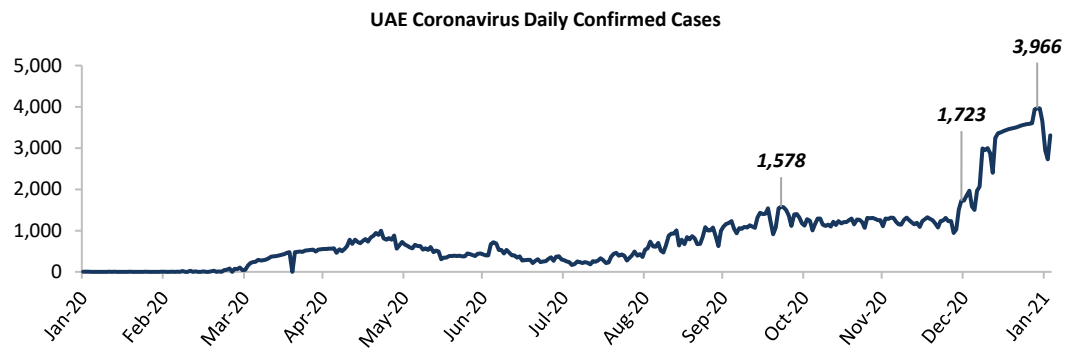
Activity in Dubai began to pick up following the end of lockdown in late May and was boosted again once the country’s borders reopened in July. However, vaccine rollout optimism, lax COVID-19 regulations, and the travel corridors set up with the UK and Israel in mid-November and December set the Emirate up for a surge in tourism and a level of overall activity not seen in over a year. The boost in tourism revived the hospitality sector, with hotel occupancy reaching 71% in December, the highest since February.



Source: EFG Hermes, REIDIN, Capital Investments

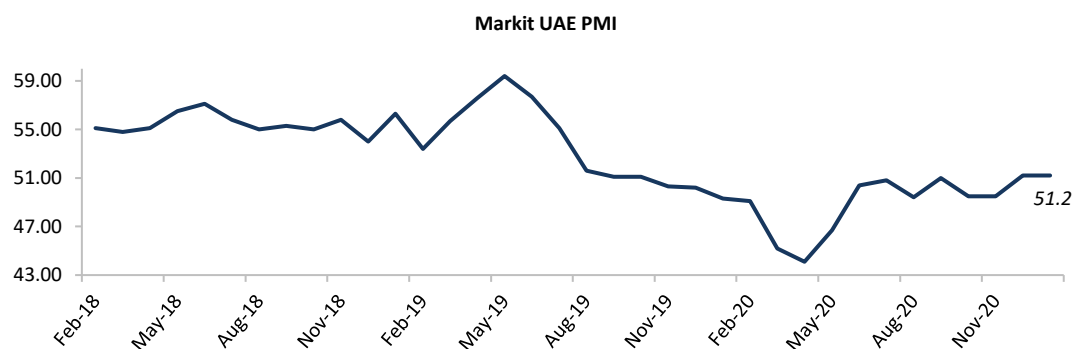
Optimism in the Dubai economy overflowed into the real estate sector, with residential transactions rising 79% quarter-on-quarter to AED 25.4 billion in 4Q20, the highest quarter in the past five years.

As tourists typically outnumber residents by 6-7 times, Dubai attempted to balance the trade-off between economic reopening and putting the healthcare system at risk. Dubai’s experience exposes the pent-up demand for holidays but shows that recovery will not be as simple as a quick reopening.



Source: Bloomberg, Capital Investments

The UAE saw record-high coronavirus cases on 30 December and has since averaged 3,090 cases a day in January, whereas the highest number of cases recorded in a day prior to this wave was 1,578 (in October). Travel corridors are now revoked, and new restrictions have been put into place. Restrictions include closure of all bars and pubs for the entire month of February, a 1 a.m. mandatory closing time for all restaurants and cafes, and maximum capacity limits on cinemas, hotels, malls and other destinations. The government blamed “a marked increase in the number of violations of precautionary measures” for the need to impose new restrictions.



Source: Bloomberg, Capital Investments

January UAE PMI data shows the country’s economy expanding at a similar pace to the month before. The spike in coronavirus cases will bring with it not only healthcare costs, but the new restrictions (both inside and from countries from which tourists originate) will weigh on economic activity. Thus the UAE might witness a slower recovery than originally expected.

The UAE has plans to vaccinate 50% of its population by April, and it seems that the vaccine will be the solution to its problems. There remain some hurdles to overcome along the way, like the issue of availability, distribution, and administration of vaccines, in addition to the apparent lag between mass vaccination and a drop in new infections.



Source: Bloomberg, Capital Investments

The spike in cases has started weighing on sentiment and mobility, which is reflected in the recent decline in the DFM Index. However, we do not expect to see another sharp drop in the market even if restrictions mean a delayed recovery. The UAE says it has given over 3.4 million vaccine doses so far, ranking it among the top countries in the world.

Major Indices	Status as of end		Performance	
	December. 2020	January. 2021	January.2021	YTD (31 January. 2021)
<b>MENA</b>				
Abu Dhabi	5,045.32	5,593.48	10.86%	10.86%
Bahrain	1,489.78	1,462.61	-1.82%	-1.82%
Dubai	2,491.97	2,654.06	6.50%	6.50%
Egypt	10,845.26	11,546.15	6.46%	6.46%
Jordan	1,657.22	1,726.82	4.20%	4.20%
Kuwait	6,051.07	6,307.86	4.24%	4.24%
Lebanon	657.89	660.10	0.34%	0.34%
Morocco	11,287.38	11,630.01	3.04%	3.04%
Oman	3,658.77	3,653.22	-0.15%	-0.15%
Palestine	471.26	492.07	4.42%	4.42%
Qatar	10,435.96	10,473.50	0.36%	0.36%
Saudi Arabia	8,689.53	8,702.55	0.15%	0.15%
Tunisia	6,884.93	6,657.83	-3.30%	-3.30%
S&P Pan Arab Composite	769.49	785.15	2.04%	2.04%
Dow Jones MENA	581.51	596.70	2.61%	2.61%
<b>Americas</b>				
Dow Jones Industrial	30,606.48	29,982.62	-2.04%	-2.04%
S&P 500	3,756.07	3,714.24	-1.11%	-1.11%
NASDAQ Composite	12,888.28	13,070.69	1.42%	1.42%
S&P/Toronto Composite	17,433.36	17,337.03	-0.55%	-0.55%
<b>Europe</b>				
EURO Stoxx 50	3,552.64	3,481.44	-2.00%	-2.00%
S&P Europe 350 Index	1,585.57	1,572.28	-0.84%	-0.84%
FTSE 100 Index/ London	6,460.52	6,407.46	-0.82%	-0.82%
FTSE MIB Index/ Italy	22,232.90	21,572.53	-2.97%	-2.97%
DAX Index/ Germany	13,718.78	13,432.87	-2.08%	-2.08%
<b>ASIA/Pacific</b>				
NIKKEI 225/ Japan	27,444.17	27,663.39	0.80%	0.80%
S&P/ASX 200/ Australia	6,587.10	6,607.36	0.31%	0.31%
<b>BRIC</b>				
Brazil/ Bovespa	119,017.20	115,067.60	-3.32%	-3.32%
Russia/ RTS	1,387.46	1,367.64	-1.43%	-1.43%
India/ Bombay Sensitive	47,751.33	46,285.77	-3.07%	-3.07%
China/ Shanghai Composite	3,473.07	3,483.07	0.29%	0.29%
Hong Kong/ Hang Seng	27,231.13	28,283.71	3.87%	3.87%

Source: Bloomberg, Capital Investments

Description	Closing Prices as of end		Performance	
	December. 2020	January. 2021	January.2021	YTD (31 January. 2021)
<b>Commodities (in USD)</b>				
Brent Spot (Barrel)	51.17	54.85	7.19%	7.19%
WTI Cushing Spot (Barrel)	48.52	52.20	7.58%	7.58%
Natural Gas NYMEX (MMBtu)	2.53	2.56	1.50%	1.50%
Gold Spot (OZ)	1,898.36	1,847.65	-2.67%	-2.67%
Silver Spot (OZ)	26.40	26.99	2.22%	2.22%
Copper LME Spot (MT)	7,749.00	7,862.40	1.46%	1.46%
Corn CBOT Active Month (Bushel)	4.84	5.47	13.02%	13.02%
Wheat CBOT Active Month (Bushel)	6.41	6.63	3.51%	3.51%
Soybean CBOT Active Month (Bushel)	13.11	13.70	4.50%	4.50%
Rough Rice Futures (USD/cwt)	12.40	13.46	8.55%	8.55%
<b>Currencies Spot Exchange Rates Against US Dollar</b>				
Euro	1.22	1.21	-0.70%	-0.70%
GBP	1.37	1.37	0.27%	0.27%
CAD	0.79	0.78	-0.33%	-0.33%
Yen	0.01	0.01	-1.34%	-1.34%
CNY	0.15	0.16	1.53%	1.53%

Source: Bloomberg, Capital Investments

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