

## Monthly Newsletter

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

*"A friend is someone who can sing you the song of your heart when you have forgotten it — Anonymous*

*"Learn how to listen as things speak for themselves" — Matsuo Basho*

### Clues from Recent Asset Classes' Behavior

**Macro: Growth Momentum Turned to Europe**

**Oil: OPEC Back in Control**

**MENA: Big Plans Driving Sentiment in Saudi Arabia**

### Introduction

The "sell in May..." theme did not materialize this year; another side effect of the Covid-era investment journey as investors seems to have rotated out from growth stocks to reopening trades, cyclical and value plays, while staying positive on technology stocks that fall under the growth at a reasonable price category. Europe stole the lead from the US, driven by improved sentiment on the back of easing mobility restrictions, increasing rates of vaccination across the old continent and supported by stimulus packages. Europe took hold of the recovery baton from the US which took it from China, the first country to recover.

On the data front, a pause in momentum or a potential peak formation can be seen across key measures such as PMIs in the US and China along with sentiment indices. Deceleration is evident at the level of retail sales or industrial indicators. In contrast, European indicators are still grinding higher.

The more interesting perspective in the investment landscape is at the policy-maker's side. It seems that we have reached a peak in stimulus packages and may potentially reach a peak in growth momentum between Q3 and Q4 of this year depending on the region, while growth is expected to continue above trend into 2022 driven by the positive spillover effects of reopening and stimulus. Regulators are putting more scrutiny into cryptos which are creating a lot of volatility that was exacerbated by the unwinding of leveraged positions. This has led to uncertainty and intensified the instability.

As policymakers are getting more comfortable about the trends in the viral curves and growth trajectory, they are focusing on tapering stimulative policies. However these appear to be soft rather than hard as hinted by the gradual production increase by OPEC+, while more attention will be concentrated on the Fed's next move as the market is expecting the monetary policy setter to start talking about tapering in Q3 2021.

China is cracking down on commodity speculators which indicates that shortage and input cost driven inflation is hurting the manufacturing locomotive of the world. China's efforts to curb commodity prices and a loss in momentum in PMIs data explain the recent pause in inflationary pressure which was a relief to markets. Investors will continue to focus on inflation along with a potential global tax agreement and on the movement in sovereign yields, which are in a consolidation mode.

Our exposure to gold, silver and energy paid off well, along with our exposure to Europe and UK. We continue to deploy money selectively into EM and we are deploying money back into China.

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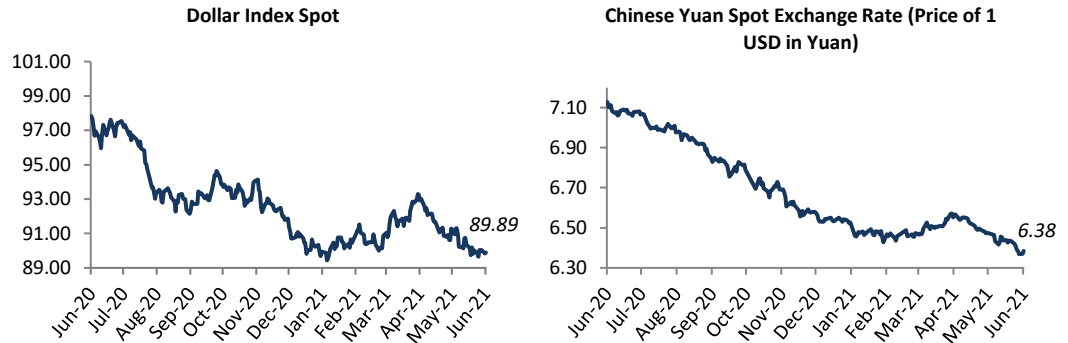
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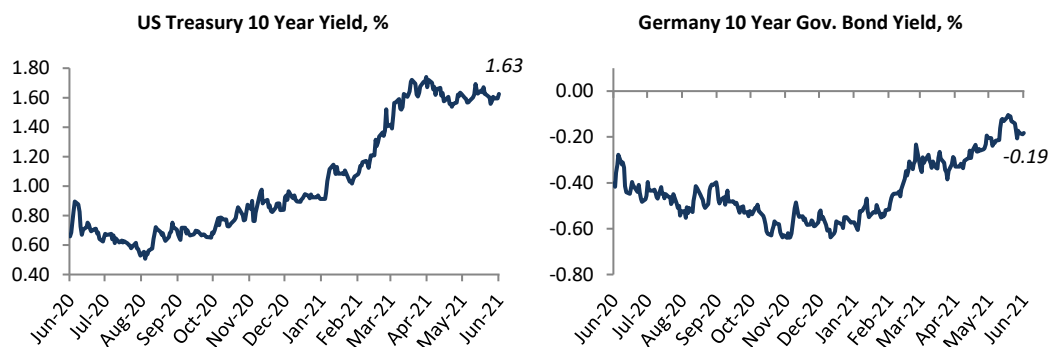
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## Clues from Recent Asset Classes' Behavior



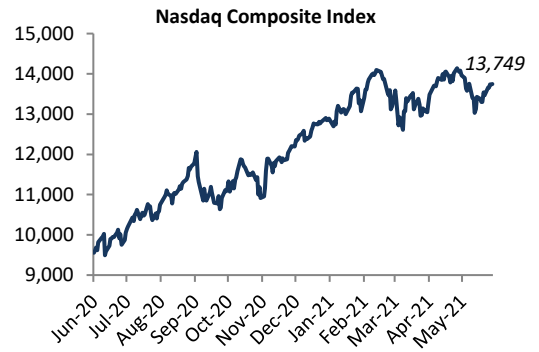
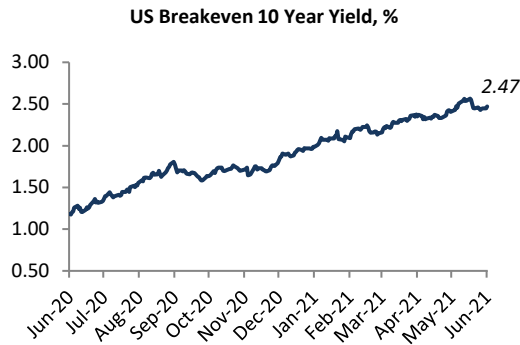
Source: Bloomberg, Capital Investments

The greenback kept its soft trend vis-à-vis major currencies such as the GBP and the Euro, which gained steam on the back of reopening plans or improved growth prospects and narrowing yield differential with US. The most interesting was the Chinese Yuan which strengthened vis a vis the USD. In our opinion, we think that China is using the currency implicitly to tame inflation and the current indirect intervention by the regulator to tame the rally in Yuan is cosmetic. A stronger Yuan is making us more constructive on Chinese equities.



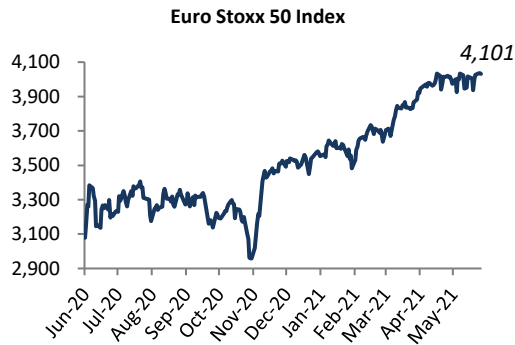
Source: Bloomberg, Capital Investments

A pause in inflation and lack of catalysts led to a consolidation in advanced economies' sovereign yields. This was maintained through the continuous asset purchase programs performed by central banks. As reopening gathers pace and the recovery gains more momentum and oil prices strengthen, we think that yields should grind higher again, not to mention any potential monetary policy tapering later this year. A significant spike in yield will put the equity market in check unless earnings growth can come in the range of 20%-25%.



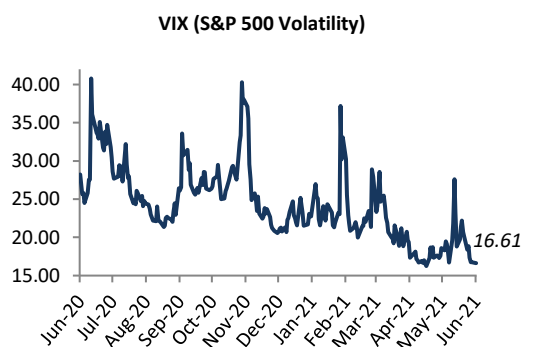
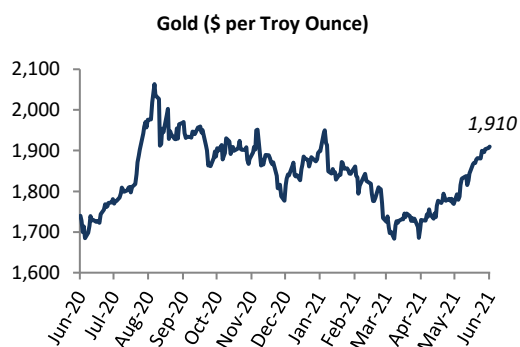
Source: Bloomberg, Capital Investments

The weak TIPS auction that went through in US during the month of May was an indication that inflationary expectations are reaching an interim peak. This led to a rally in tech stocks as expressed by the Nasdaq Composite Index. However, from a year-to-date perspective, the latter is a laggard when compared to European indices which are breaking out.



Source: Bloomberg, Capital Investments

We continue to be constructive on Europe, encouraged by the pace of reopening, while we start to accumulate again in Chinese stocks.

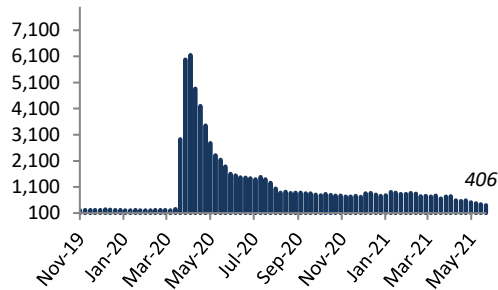


Source: Bloomberg, Capital Investments

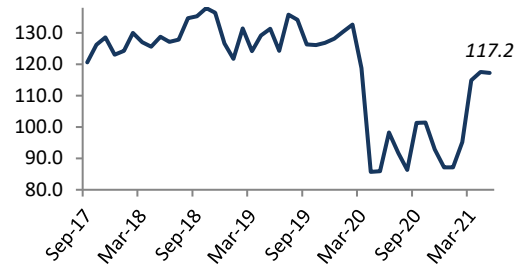
A weak dollar coupled with consolidation in negative real yield are supporting the price of gold, the next resistance is \$1970 per ounce, while the declining VIX index is indicating that fear from the virus is receding and investors are focusing on other types of risks such as taxation, and a spike in yields.

## Macro: Growth Momentum Turned to Europe

US Initial Jobless Claims (Thousands)



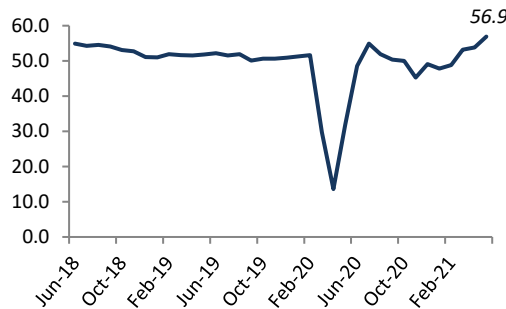
US Conference Board Consumer Confidence Index



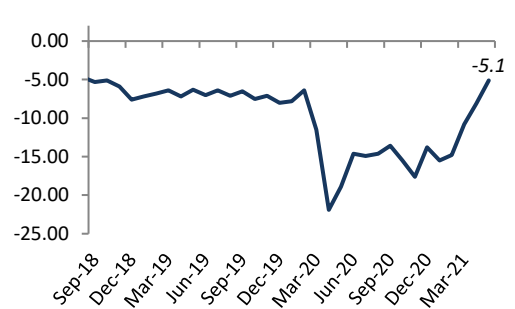
Source: Bloomberg, Capital Investments

Jobless claims in the US continue to point toward a gradual recovery in the country. In fact, investors should start to price in the expansion phase of the recovery as growth is expected to peak later this year, while consumer confidence was weighed down by the recent spike in inflation figures.

Markit Eurozone Composite PMI SA



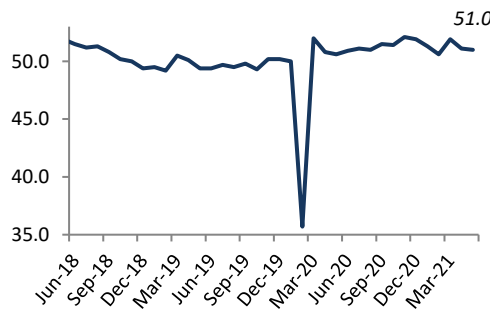
Eurozone Consumer Confidence Indicator



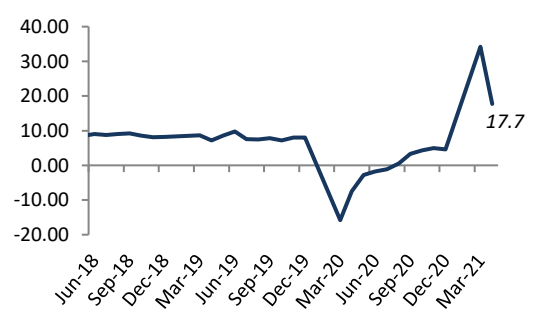
Source: Bloomberg, Capital Investments

European indicators are confirming that the old continent is moving in the right direction and that growth is gathering momentum as indicated by consistent rise in PMIs and improvement in confidence indicators.

China Manufacturing PMI



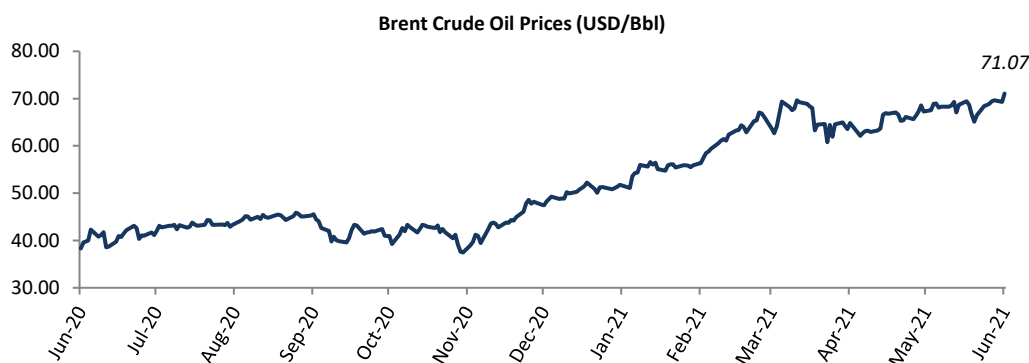
China Retail Sales, YoY%



Source: Bloomberg, Capital Investments

Chinese authorities are trying to control the pace of growth, we have noticed some softness in economic data especially in manufacturing and retail sales and the credit impulse is reaching a peak. We are constructive on the big picture in China and we are accumulating again, encouraged by valuation levels and strong yuan.

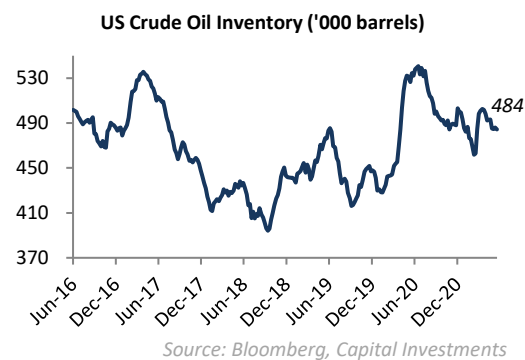
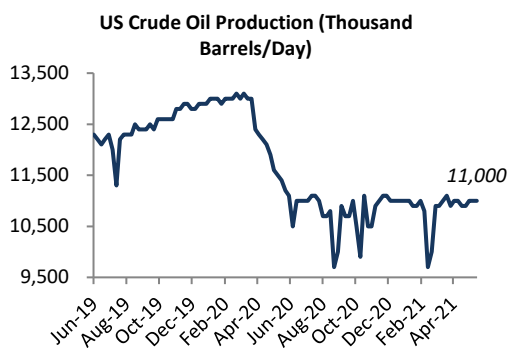
## Oil: OPEC Back in Control



*Source: Bloomberg, Capital Investments*

Oil prices swung between gains and losses throughout the month of May as the market assessed the impact of the cyberattack on a major US pipeline, and as it braced for a potential increase in supply from Iran. Prices were also torn between high inflation and an uneven demand recovery across the globe. However, prices were able to break upwards at the end of the month as signs of demand recovering in the US, Europe, and China offset near-term demand concerns from India, and as OPEC and its allies agreed to only gradually release barrels into the market.

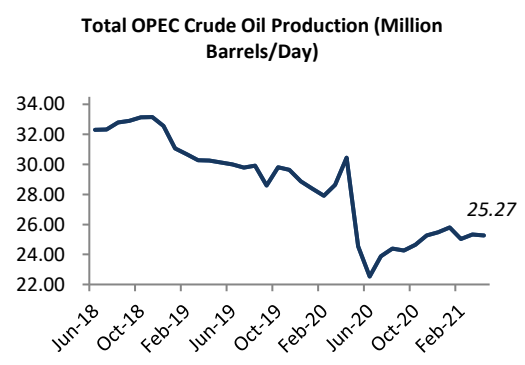
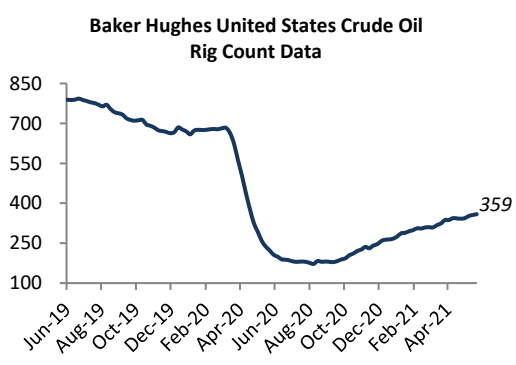
OPEC and its allies stuck to their plan to cautiously bring back oil supply to the markets in June and July while expecting a robust recovery in demand in the United States and China, the world's two biggest oil consumers. Including extra cuts by Saudi Arabia tapering off through July, the producer group will be returning 700,000 barrels per day (bpd) in June and 840,000 bpd in July. The Saudi Energy Minister's comments after the meeting boosted the market by saying that he anticipated a good demand recovery in the US and China, and that the pace of vaccination rollouts "can only contribute to a further rebalancing of the global oil market". However, Iran is preparing to ramp up global oil sales as talks to lift U.S sanctions show signs of progress, potentially bringing extra supply into the market.



Source: Bloomberg, Capital Investments

Just when the oil market participants thought they had it seen it all, they were astonished to find out about a cybersecurity attack at the largest U.S pipeline-Colonial Pipeline- which supplies gasoline, and diesel, and jet fuel to the eastern U.S. The pipeline was forced to halt operations as a result of the attack, sending pump prices upwards and triggering shortages across the East Coast. Although the pipeline returned to service quickly, and the incident highlights a new source of supply risk and is the first major cybersecurity-related disruption.

Also in the U.S, rigs rose by 3 to 359 in the week ended May 28, the highest level since April 2020. Meanwhile, according to the EIA, U.S gasoline stockpiles fell 1.75 million barrels in the week ended May 21, reaching the lowest level since late March. In addition, the API reported a draw in crude oil inventories of 5.36 million barrels in the week ending 28 May, much larger than the expected 2.11-million-barrel draw, lifting prices further.



Source: Bloomberg, Capital Investments

In terms of demand, evidence is pointing towards a recovery in the US, Europe, and China. Fuel sales in the UK have risen to their greatest level since the Covid-19 epidemic, while US airports are busier than they have been since the pandemic began, and US domestic refineries were operating at about 87 percent capacity at the end of April, the highest level since March 2020. Meanwhile, China processed a record amount of crude oil in the first four months of 2021 as new refineries ramped up operations and fuel demand rebounded strongly from the pandemic. Demand in India,

however, has worsened in the first half of May as large parts of the nation remained under local lockdowns to battle the country's covid-19 outbreak, reflecting a stark divergence in the demand recovery for oil.

All three major oil agencies, the IEA, EIA and OPEC, agree that the oil stockpiles built up in the developed nations of OECD have disappeared, as producers maintained their discipline and as demand has picked up from the lows of 2020. However, India's Covid-19 crises is a reminder that the outlook for oil demand is uncertain, and that until the pandemic is brought under control, market volatility is likely to persist.

### **MENA: Big Plans Driving Sentiment in Saudi Arabia**

In an interview in late April, Crown Prince Mohammad bin Salman made the case for more centralized economic policymaking in Saudi Arabia to drive Vision 2030. The government may soon launch a new Policies Office to provide coherence and sustainability to the country's various economic strategies.

A centralized policy office will have oversight of a slew of ambitious programs. Last November, the crown prince announced that the Public Investment Fund (PIF) will be injecting USD40 billion annually in the domestic economy, as new strategies force the fund to balance solid return generation from international investments with local capital investment. More recently, a public-private partnership program named Shareek, announced late March, aims to drive USD1.3 trillion of corporate investments in the private sector from national champions by 2030. The plan involves incentives for publicly traded companies to channel dividend payments into long-term investments in the local economy. Shareek program is expected to help the private sector create hundreds of thousands of new jobs and boost its contribution to the GDP to 65% by the end of the decade. A forthcoming National Investment Strategy is also expected to announce the injection of trillions of dollars more into the economy over the next decade.

Shareek program will enable capital intensive companies, particularly those in the oil and gas, petrochemical, and heavy industries such as Sabic and Aramco to capture attractive investment opportunities. The program will also support digitalization and encourage investment in technology. Banks in general will benefit from the program, especially if the incentives include access to low-cost and long-duration deposits, loan guarantees against riskier SME debt, and

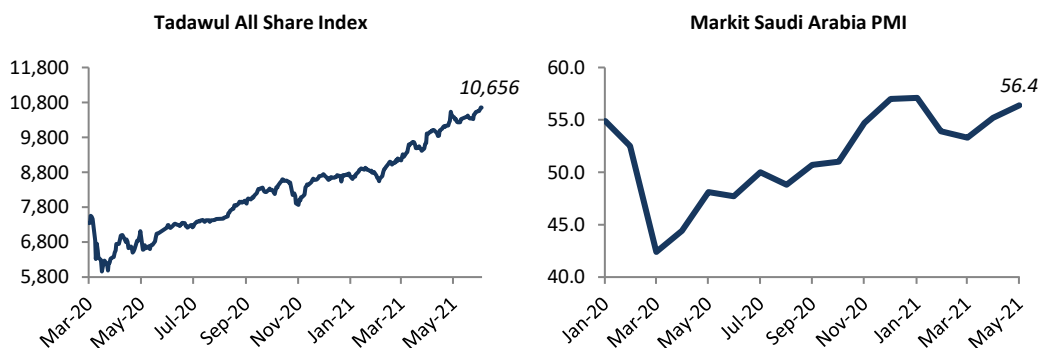
potential regulatory concessions. However, Saudi National Bank (SNB), as the newly formed national champion of the Saudi banking sector, should be one of the main beneficiaries as it positions itself as the financier of economic development and Vision 2030.

Shareek will likely redirect investments from dividend to growth stocks as investors that once sought return in the form of dividends now expect to be compensated in capital gains as prices begin to reflect growth potential.

Mohammad bin Salman also announced green initiatives for both Saudi Arabia and the broader Middle East. The initiatives involve several ambitious programs that aim to reduce carbon emissions by 60% in the region and plant 50 billion trees in the world’s biggest afforestation project. While largely environmental in nature, the initiatives include projects intended to improve livability, boost renewable energy capacity, and increase the share of clean hydrocarbon technologies.

Environmentally friendly objectives lie at the heart of an increasing number of state-led development projects, such as ‘The Line’ at Neom, a proposed smart city that will have no cars, no streets, and no carbon emissions. Neom, the USD500 billion futuristic mega-city first announced in late 2017, plans to incorporate smart city technologies and function as a tourist destination. The latest reports see the city to opening its first hotels by the end of 2022, with another 15 hotels opening per year between 2023 and 2025, before ramping up the pace to 20 to 30 hotels a year thereafter. They expect to accommodate 5 million visitors by 2030.

Cement companies that operate in the western and northern regions of Saudi Arabia will benefit from increased demand as plans continue to take physical shape.



Source: Bloomberg, Capital Investments

Major Indices	Status as of end		Performance	
	December. 2020	May. 2021	May. 2021	YTD (31 May. 2021)
<b>MENA</b>				
Abu Dhabi	5,045.32	6,558.71	8.47%	30.00%
Bahrain	1,489.78	1,527.62	2.88%	2.54%
Dubai	2,491.97	2,797.52	7.37%	12.26%
Egypt	10,845.26	10,309.06	-1.59%	-4.94%
Jordan	1,657.22	2,052.89	14.34%	23.88%
Kuwait	6,051.07	6,740.04	1.76%	11.39%
Lebanon	657.89	900.11	-2.20%	36.82%
Morocco	11,287.38	12,114.46	2.57%	7.33%
Oman	3,658.77	3,852.61	2.44%	5.30%
Palestine	471.26	533.12	11.22%	13.13%
Qatar	10,435.96	10,748.26	-1.50%	2.99%
Saudi Arabia	8,689.53	10,551.23	1.27%	21.42%
Tunisia	6,884.93	7,394.62	3.22%	7.40%
S&P Pan Arab Composite	769.49	907.63	1.71%	17.95%
Dow Jones MENA	581.51	675.75	1.83%	16.21%
<b>Americas</b>				
Dow Jones Industrial	30,606.48	34,529.45	1.93%	12.82%
S&P 500	3,756.07	4,204.11	0.55%	11.93%
NASDAQ Composite	12,888.28	13,748.74	-1.53%	6.68%
S&P/Toronto Composite	17,433.36	19,730.99	3.26%	13.18%
<b>Europe</b>				
EURO Stoxx 50	3,552.64	4,039.46	1.63%	13.70%
S&P Europe 350 Index	1,585.57	1,775.83	2.11%	12.00%
FTSE 100 Index/ London	6,460.52	7,022.61	0.76%	8.70%
FTSE MIB Index/ Italy	22,232.90	25,170.55	4.26%	13.21%
DAX Index/ Germany	13,718.78	15,421.13	1.88%	12.41%
<b>ASIA/Pacific</b>				
NIKKEI 225/ Japan	27,444.17	28,860.08	0.16%	5.16%
S&P/ASX 200/ Australia	6,587.10	7,161.63	1.93%	8.72%
<b>BRIC</b>				
Brazil/ Bovespa	119,017.20	126,215.70	6.16%	6.05%
Russia/ RTS	1,387.46	1,597.54	7.58%	15.14%
India/ Bombay Sensitive	47,751.33	51,937.44	6.47%	8.77%
China/ Shanghai Composite	3,473.07	3,615.48	4.89%	4.10%
Hong Kong/ Hang Seng	27,231.13	29,151.80	1.49%	7.05%

Source: Bloomberg, Capital Investments

Description	Closing Prices as of end		Performance	
	December. 2020	May. 2021	May. 2021	YTD (31 May. 2021)
<b>Commodities (in USD)</b>				
Brent Spot (Barrel)	51.17	68.73	3.31%	34.32%
WTI Cushing Spot (Barrel)	48.52	66.32	4.31%	36.69%
Natural Gas NYMEX (MMBtu)	2.69	2.99	0.27%	11.21%
Gold Spot (OZ)	1,898.36	1,906.87	7.79%	0.45%
Silver Spot (OZ)	26.40	28.03	8.14%	6.15%
Copper LME Spot (MT)	7,749.00	10,248.25	4.27%	32.25%
Corn CBOT Active Month (Bushel)	4.80	6.57	-2.45%	36.75%
Wheat CBOT Active Month (Bushel)	6.28	6.64	-9.70%	5.61%
Soybean CBOT Active Month (Bushel)	11.12	13.73	2.46%	23.48%
Rough Rice Futures (USD/cwt)	12.40	13.30	-0.64%	7.26%
<b>Currencies Spot Exchange Rates Against US Dollar</b>				
Euro	1.22	1.22	1.72%	0.09%
GBP	1.37	1.42	2.82%	3.96%
CAD	0.79	0.83	1.87%	5.55%
Yen	0.01	0.01	-0.24%	-5.71%
CNY	0.15	0.16	1.64%	2.46%

Source: Bloomberg, Capital Investments

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