

## Monthly Newsletter

April 28<sup>th</sup>, 2022

*"Ability will get you to the top, but it takes character to keep you there" – Abraham Lincoln*  
*"Learning never exhausts the mind" – Leonardo Da Vinci*

### Clues from Recent Asset Classes' Behavior

**Macro: Rising Energy Prices, New Covid Lockdown...Potential Slowdown**

**Oil: A Volatile Range**

**MENA: Dubai in the Spotlight Once Again**

### Introduction

A broadly negative month for markets, as investors are sailing through a volatile environment amid rising waves of uncertainty.

Firmer expectations of a hawkish Fed are taking their toll on markets through the channels of tighter monetary financial conditions and a stronger USD. Over-stretched valuation especially in the heavy-growth Nasdaq took a major hit falling more than 10% at the time of writing. Investors may warrant that such drop may reflect the hawkishness of the Fed as markets seem to be calling on the Fed to be ahead of the curve and to deliver its 50bps rate hike, and possibly more, as that this will provide clarity and relief.

The Fed was clear in terms of guidance and intention although more explanation is needed on the quantitative tightening front due to its effect on term premia and liquidity.

Markets are not adjusting to the Fed only or the global hawkish monetary stance, but they must deal with other factors. The war in Ukraine and the recent covid outbreak in China are complicating the picture in relation to energy security and the restoration of disrupted supply chains.

Repercussions will be felt and seen through the lens of inflationary expectations which investors are hoping to have peaked, but recent developments may indicate that this was short lived as bottlenecks are re-emerging again. This coupled with shortage of skilled labor is posing difficulty to economic activity.

Input and labor cost escalation on the supply side coupled with the surge in demand on the wake of the reopening process and recovery are leading to inflationary pressures. Those pressures are denting the purchasing power of consumers, and thus weighing on the earnings of some companies such as the streaming industry. As a result, the probability of a recession in the next 12 to 18 months has increased amid fading fiscal stimulus and tighter monetary policy globally ex-China, which has resumed stimulative measures to support its economy. Yields especially in the US retreated because the probability of a recession or at least a slowdown has increased, and not because Fed has changed its mind.

Amid this environment we continue to hold a defensive stance. We are holding a significant portion in cash, energy, commodities, and precious metals are core to our equity exposure. We continue to think that travel and leisure is still benefiting from the reopening and consumers that are tapping into their savings. We are selective on emerging markets with a focus on commodity plays such as Brazil or Indonesia while observing China to increase our positioning. In the MENA region, we are selective with a focus on banks, reopening plays and the Qatari market. We prefer to keep this stance given tighter monetary policy and economic challenges as cash offers protection and optionality. Despite this defensive asset allocation, we were not shielded at certain points as both commodities and other segments of the market fell together. This neutralized, to some extent, our barbell strategy and the negative correlations in our portfolio.

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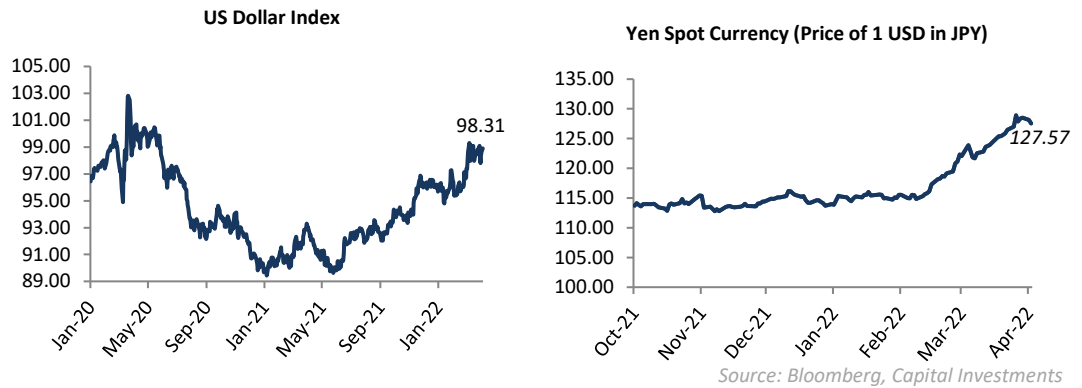
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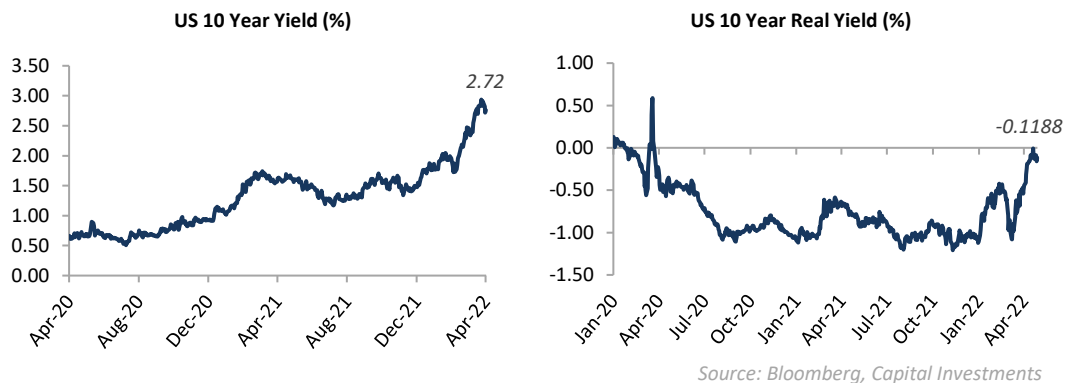
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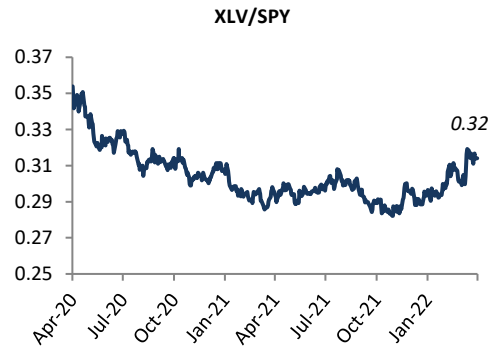
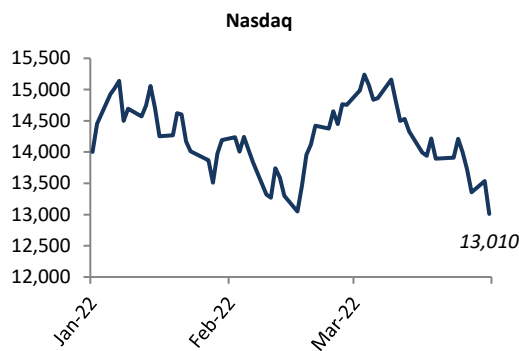
## Clues from Recent Asset Classes' Behavior



The USD is consolidating near an important resistance point. A strong greenback is adding to the tightening of financial conditions and contributing to market volatility. The DXY index seems to be moving in a range ahead of the Fed meeting while a weaker Euro and lack of action by the ECB is not offering any help. The interest rate differential between US and Japan and the yield curve control strategy adopted by BOJ are leading to a weaker yen.

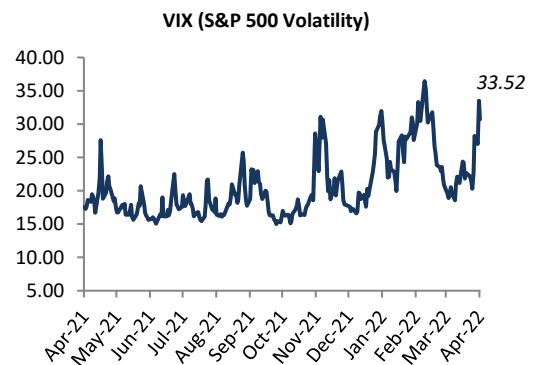
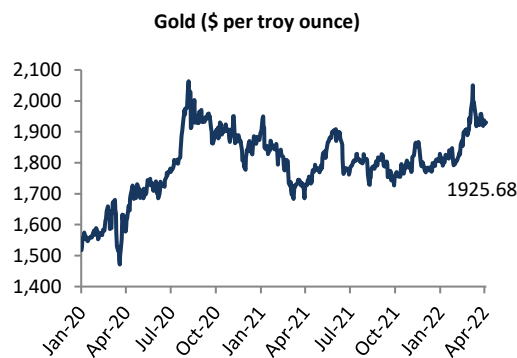


US real yield is becoming less negative; a sign that monetary tightening is gathering pace. How far the Fed would go in pushing real yield above zero and into positive territory is yet to be determined. However, the nominal yield curve is pointing toward a slowdown and the recent retreat in the US 10-year yield from 3% to around 2.76% is an expression of lower growth expectations, rather than a less firm Fed.



Source: Bloomberg, Capital Investments

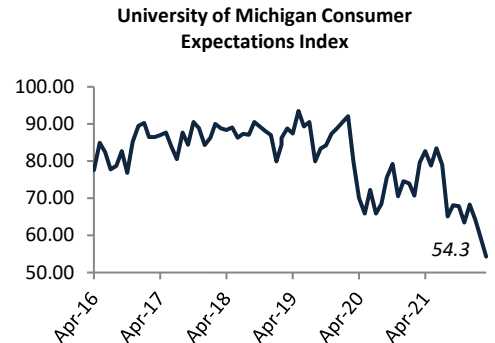
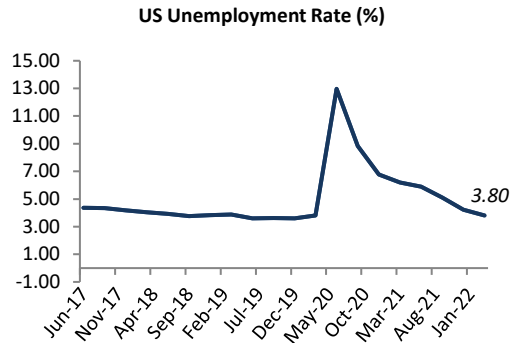
Defensive sectors are showing resilience as indicated by the ratio of the healthcare ETF XLV TO SPY (S&P500 index, ETF). The ratio shows that the healthcare sector is outperforming the broad market, while the growth segment as represented by the Nasdaq is on a downward trend despite upward bounce backs similar to what happened in the second half of March, as pockets of overvaluation are facing the reality of rising cost of capital due to tighter monetary policy.



Source: Bloomberg, Capital Investments

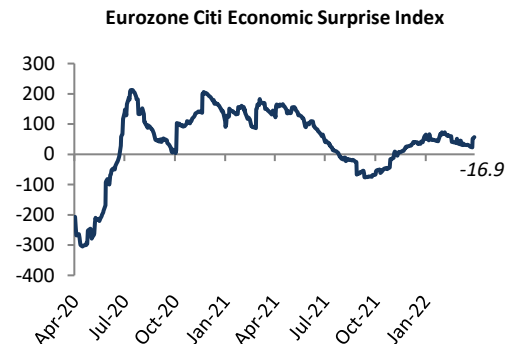
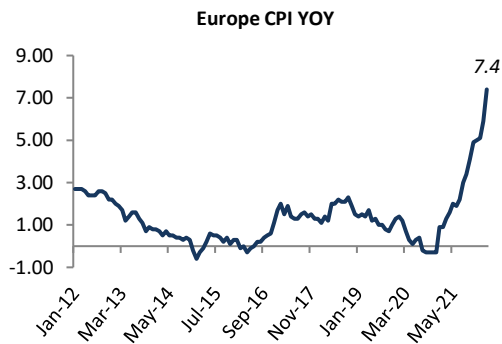
The momentum in gold lost some steam on the wake of a stronger USD and firmer real yield. However, despite this, we continue to be constructive on gold. Gold is a real asset that serves as a hedge against shocks and inflation, and commodities are generally driven by demand and supply over the long term. On that front, physical demand is increasing led by investments, consumers, and central banks. We prefer to play the gold exposure through miners as they have healthy balance sheets and a good dividend payout. As for the VIX index, which is a gauge of fear, it continues to trend above the 20 handle and we hope that the recent spike would lead to a peak in the fear effect soon. We think that investors will continue to be under pressure until they get some clarity on monetary policy direction from the Fed in early May.

## Macro: Rising Energy Prices, New Covid Lockdown...Potential Slowdown



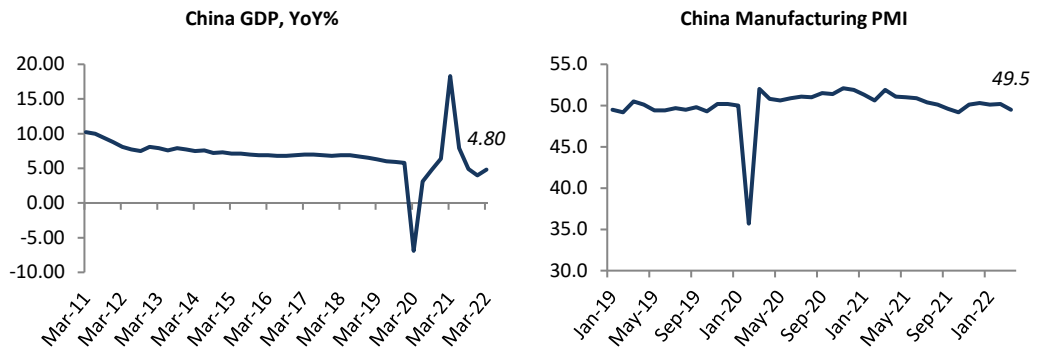
Source: Bloomberg, Capital Investments

A tight US labor market was not able to save the moment as consumer confidence fell to a decade low, indicating that inflation is denting economic activity through diminished purchasing power. We think that a strong labor market coupled with strong corporate balance sheets are curbing the speed of slowdown in the economy.



Source: Bloomberg, Capital Investments

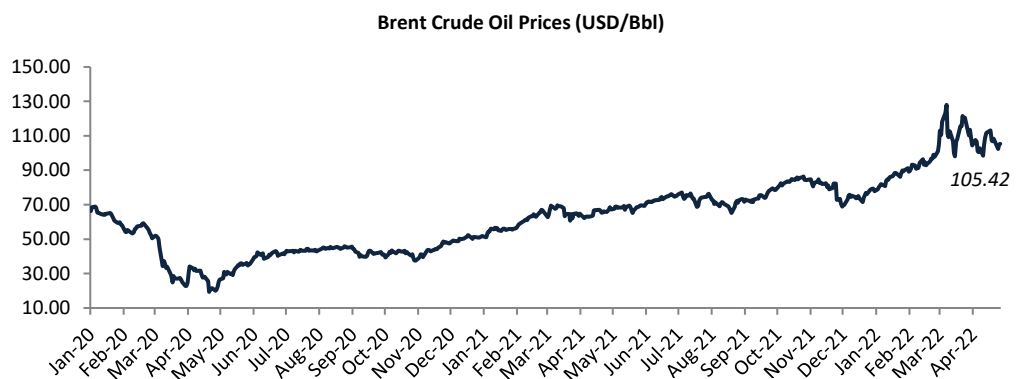
The energy crisis in Europe and the disruption of supply chains are amplifying the economic challenges for the old continent. We think that the ECB should turn hawkish soon to save the moment as they cannot keep trying to balance growth and inflation given that the risk of high inflation is being exacerbated by a weaker Euro.



Source: Bloomberg, Capital Investments

The recent easing of monetary policy in China in terms of reserve requirement ratio cuts helped in injecting liquidity into the system amid the lockdowns and zero covid strategy adopted by the authorities. Chinese equities look cheap, but the lockdown is set to weigh on the economic activity in China and the rest of the world given that the country is the manufacturing hub of the world.

### Oil: A Volatile Range

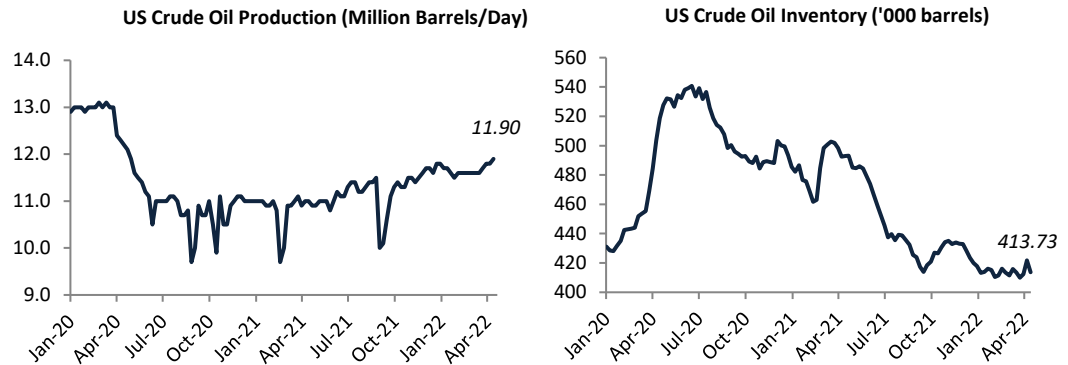


Source: Bloomberg, Capital Investments

Two months into Russia’s invasion of Ukraine and with no end in sight, oil prices appear to have settled at these high levels. At the time of writing, prices are almost flat for the month of April, as conflicting factors continue to move Brent within a range, albeit a volatile one. While the futures curve remains in backwardation- an indication of a tight market- the time spread has narrowed throughout the month, as various risks are pointing to the downside.

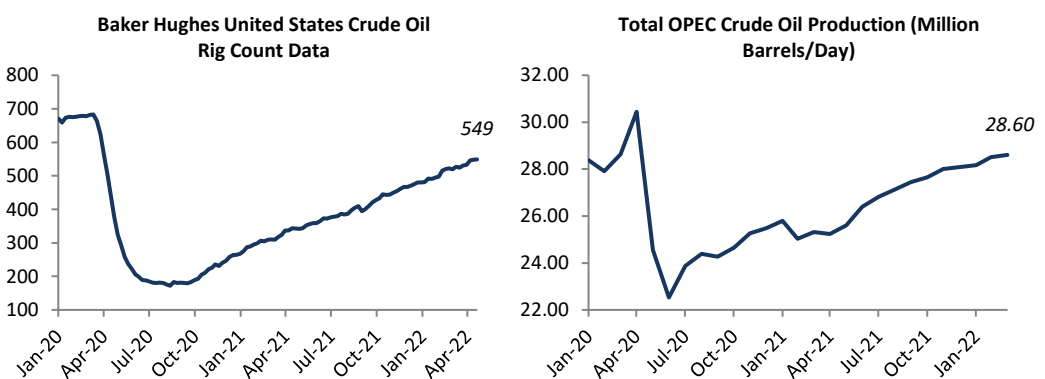
Hawkish signals from the U.S Fed have raised concerns over economic growth and therefore the recovery of crude demand. Meanwhile, China’s stringent measures as it attempts to pursue its Covid Zero policy have led to the lockdown of the nation’s biggest cities with demand for gasoline, diesel and aviation fuel expected to slide 20% in April from a year earlier-equivalent to a drop in crude oil

consumption of 1.2 million barrels a day. Consequently, both the IEA and OPEC have revised down their forecast for global oil consumption in 2022 by 300,000 and 410,000 barrels a day respectively.



Source: Bloomberg, Capital Investments

OPEC also lowered projections for supply from outside the cartel by 300,000 barrels a day, with Russia’s output now seen 530,000 barrels a day below previous estimates, representing a relatively neutral stance by the group. Therefore, the OPEC+ coalition is expected to stick to its policy of gradual output restoration tranches of roughly 400,000 barrels a day in June, despite significant shortfalls in the group’s supplies as some of its members struggle to make the increases agreed. Data in OPEC’s latest monthly report showed that the group’s troubles persist, with its 13 members adding only 57,000 barrels a day in March, about a fifth of the amount planned. Meanwhile, the EIA has also lowered its forecasts for US production as shale producers struggle with higher production and labor costs. Production in 2022 is now expected to average 12.01 million barrels a day compared to the previous forecast of 12.03 million barrels a day.



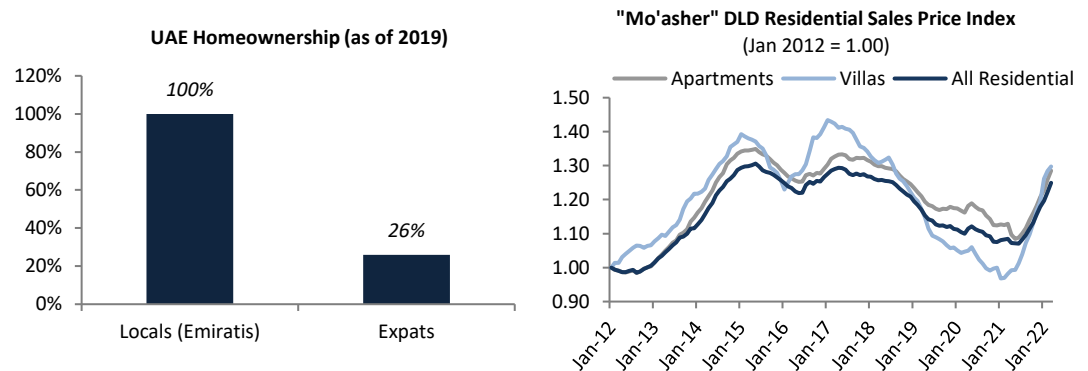
Source: Bloomberg, Capital Investments

The reserve release by the U.S and its allies in May will bring in an additional 240 million barrels into the market within the next 6 months, relieving some of the supply tightness. This, combined with the demand setback by China, has led the IEA to believe that the global oil market will avoid a “sharp”

deficit this year. However, a significant risk to supply could arise if the EU’s contemplation to bar Russian crude materializes. According to JP Morgan, a full and immediate ban could displace more than 4 million barrels a day and send Brent prices to a record \$185.

### MENA: Dubai in the Spotlight Once Again

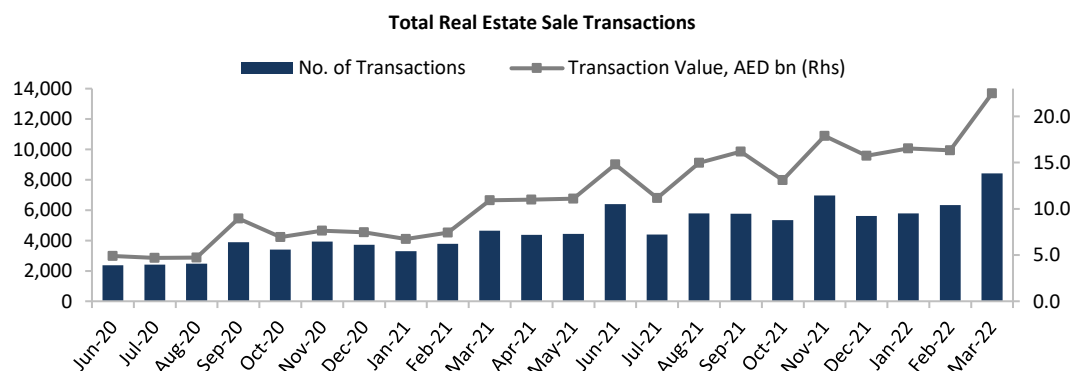
The UAE, and Dubai specifically, finds itself in the spotlight once again. Recently, the UAE government announced major amendments to the long-term residency scheme to simplify the eligibility criteria and expand the categories of the beneficiaries under the scheme.



Source: Dubai Statistics Center, Dubai Land Department, Capital Investments

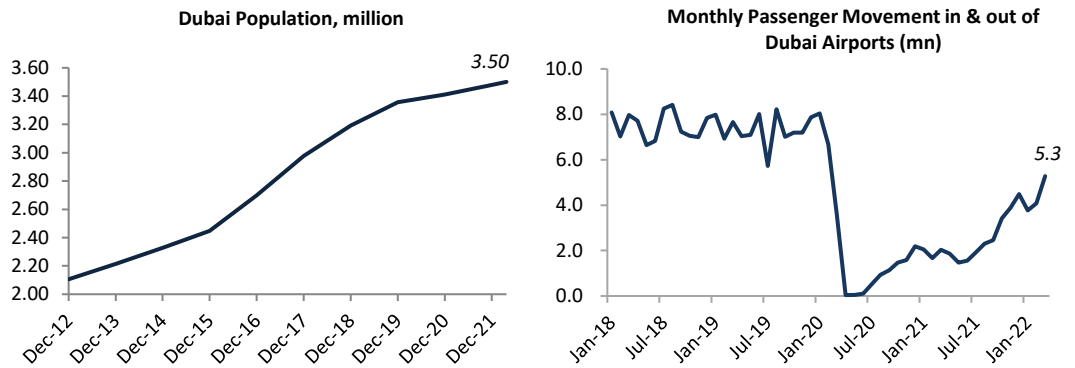
These reforms provide further support of the UAE’s real estate sector as expats have very low home ownership levels (under 30%) and the ease and flexibility of the rules along with the introduction of longer-term visas should increase their confidence to invest in real estate.

Analysts and market experts say outlook for both the villa and apartment segment remains positive, but villa prices tend to move faster and are expected to surpass January 2014 peak levels before the end of the year.



Source: Dubai’s Department of Economy and Tourism, Capital Investments

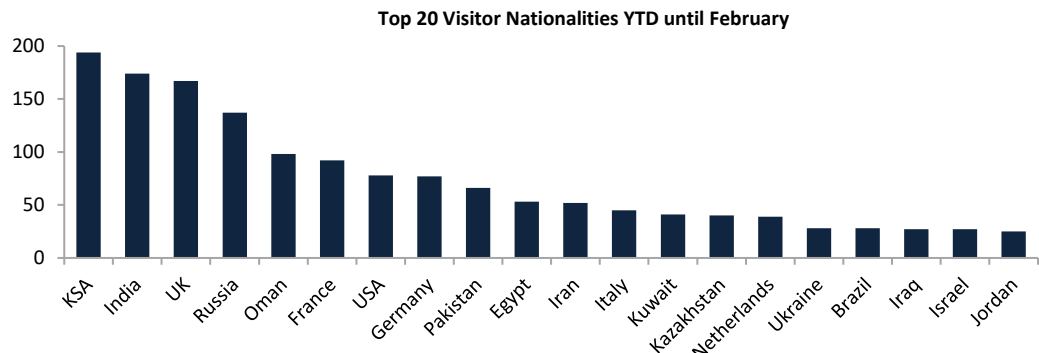
Dubai’s total real estate transaction in Q1 reached 20,526, the highest Q1 ever recorded, with a total transaction value of AED 55.3 billion.



Source: Dubai Statistics Center, Dubai Civil Aviation Authority, Capital Investments

Moreover, Dubai's population exceeded 3.5 million as part of a post-pandemic trend rise in migration. Dubai Statistics Center's live population counter stood at 3,501,182 on April 27. Population growth is a major goal for the emirate's government with a target of 5.8 million people by 2040 and a major physical expansion for the city planned. Population experts forecast that the growth would drive the need for new schools and hundreds of thousands of new homes in the next two decades. The lion’s share of arrivals is expected to be from Russia and Sub-Saharan Africa, in addition to traditional markets such as Europe and the Indian subcontinent, they predicted.

The city has been open for business, Expo 2020 and tourism. Add a Golden Visa or a remote working visa and year-round sunshine while a war rages on in Ukraine and doom and gloom hangs over much of Europe, it is no surprise the city is filled up. 13.1 million passengers passed through Dubai Airports in Q1, up 129% when compared to Q1 of last year, but still 28% below the pre-pandemic levels of Q1 2019.



Source: Dubai’s Department of Economy and Tourism, Capital Investments

In the corporate world, U.S. companies are utilizing one of the few flight corridors out of Moscow to move employees from Russia to the UAE. The UAE is one of the few U.S. partners willing to provide visas to non-sanctioned Russians, even while their country remains at war with Ukraine. Flights between Dubai and cities in Russia have continued, even as European airspace has largely been closed to Russia's airlines. Not to mention that recent changes have made the U.A.E. an easier sell for multinationals relocating staff.

The flow of Russians and people of other nationalities working for international firms is likely to help cement Dubai's place as a global commercial hub. One cannot help but recall other times when turmoil elsewhere benefited the business-focused city. Economists say money was poured into the hub from around the Middle East following the Arab Spring in 2011, helping Dubai overcome a major real-estate market slump caused by the global financial crisis. At the same time, a smaller number of companies are moving their employees to Qatar, another Gulf state that has remained open to Russians.

Major Indices	Status as of end		Performance	
	December. 2021	April. 2022	April. 2022	YTD (27 April. 2022)
<b>MENA</b>				
Abu Dhabi	8,488.36	10,025.25	0.77%	18.11%
Bahrain	1,797.25	2,038.12	-1.71%	13.40%
Dubai	3,195.91	3,687.69	4.57%	15.39%
Egypt	11,949.18	10,718.22	-4.63%	-10.30%
Jordan	2,118.65	2,366.17	6.20%	11.68%
Kuwait	7,639.11	9,262.65	2.22%	21.25%
Lebanon	1,029.36	1,032.77	4.78%	0.33%
Morocco	13,358.32	13,083.67	2.07%	-2.06%
Oman	4,129.54	4,161.34	-1.04%	0.77%
Palestine	608.45	612.04	-0.28%	0.59%
Qatar	11,625.81	13,613.25	0.59%	17.10%
Saudi Arabia	11,281.71	13,643.91	4.23%	20.94%
Tunisia	7,046.01	7,241.89	1.89%	2.78%
S&P Pan Arab Composite	993.08	1,157.56	2.19%	16.56%
Dow Jones MENA	746.79	866.87	1.86%	16.08%
<b>Americas</b>				
Dow Jones Industrial	36,338.30	33,301.93	-3.97%	-8.36%
S&P 500	4,766.18	4,183.96	-7.65%	-12.22%
NASDAQ Composite	15,644.97	12,488.93	-12.18%	-20.17%
S&P/Toronto Composite	21,222.84	20,744.23	-5.23%	-2.26%
<b>Europe</b>				
EURO Stoxx 50	4,298.41	3,734.64	-4.30%	-13.12%
S&P Europe 350 Index	1,944.25	1,789.05	-2.45%	-7.98%
FTSE 100 Index/ London	7,384.54	7,425.61	-1.20%	0.56%
FTSE MIB Index/ Italy	27,346.83	23,830.11	-4.76%	-12.86%
DAX Index/ Germany	15,884.86	13,793.94	-4.31%	-13.16%
<b>ASIA/Pacific</b>				
NIKKEI 225/ Japan	28,791.71	26,386.63	-5.16%	-8.35%
S&P/ASX 200/ Australia	7,444.64	7,261.17	-3.18%	-2.46%
<b>BRIC</b>				
Brazil/ Bovespa	104,822.40	109,349.37	-8.87%	4.32%
Russia/ RTS	1,595.76	1,049.04	2.72%	-34.26%
India/ Bombay Sensitive	58,253.82	56,819.39	-2.99%	-2.46%
China/ Shanghai Composite	3,639.78	2,958.28	-9.04%	-18.72%
Hong Kong/ Hang Seng	23,397.67	19,946.36	-9.32%	-14.75%

Source: Bloomberg, Capital Investments

Description	Closing Prices as of end		Performance	
	December. 2021	April. 2022	April. 2022	YTD (27 April. 2022)
<b>Commodities (in USD)</b>				
Brent Spot (Barrel)	77.46	104.32	-2.14%	34.68%
WTI Cushing Spot (Barrel)	76.99	102.02	1.74%	32.51%
Natural Gas NYMEX (MMBtu)	3.73	7.34	30.08%	96.76%
Gold Spot (OZ)	1,829.20	1,886.10	-2.65%	3.11%
Silver Spot (OZ)	23.31	23.30	-6.01%	-0.02%
Copper LME Spot (MT)	9,740.63	9,866.50	-4.83%	1.29%
Corn CBOT Active Month (Bushel)	5.93	8.12	8.48%	36.92%
Wheat CBOT Active Month (Bushel)	7.71	10.91	8.47%	41.58%
Soybean CBOT Active Month (Bushel)	13.39	16.93	4.60%	26.40%
Rough Rice Futures (USD/cwt)	14.63	16.66	4.06%	13.88%
<b>Currencies Spot Exchange Rates Against US Dollar</b>				
Euro	1.14	1.06	-4.61%	-7.15%
GBP	1.35	1.25	-4.51%	-7.29%
CAD	0.79	0.78	-2.43%	-1.40%
Yen	0.01	0.01	-5.23%	-10.36%
CNY	0.16	0.15	-3.36%	-3.11%

Source: Bloomberg, Capital Investments

\*April Closing Prices as of 27 April 2022

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