

MENA MARKETS REVIEW ISSUE 031

MAY 2019

HIGHLIGHTS

- Trade tensions took their toll on global markets which declined sharply during the month of May over fears of slowing economic growth.
- The MSCI AC World Index lost 6.23% during the month, while the MSCI Emerging markets Index was down 7.53% erasing more than 3 months of positive performance.
- In addition to global markets jitters, weak oil prices, regional geopolitical tensions, and the fading effect of the Saudi Arabia MSCI upgrade contributed to steep declines in the regional markets. The S&P GCC Composite index was down 5.81% for the month.
- Saudi Arabia was hit hardest with a decline of 8.47% in the Tadawul All Share index, while Kuwait was the only positive performer as the Boursa Kuwait All Share Index added 1.81%.

US GROWTH REVISED DOWN, WHILE FED REMAINS 'PATIENT'

GDP growth in 1Q19 was revised down a touch to a still-strong annualized 3.1% from the previous estimate of 3.2%, on slightly softer private investment. Growth in Q1 was boosted by a likely temporary rise in inventories and is expected to slow to 2% or less in Q2. The labor market remains strong, with unemployment in April falling to its lowest since 1969 at 3.6% and earnings growth above 3% for the ninth consecutive month; this – together with a rebound in consumer confidence – has helped retail spending rebound from an earlier soft patch. The main near-term vulnerability is in the manufacturing sector: the ISM activity index hit a two-and-a-half-year low of 52.8 in April with the export orders component now in contraction territory amid slowing global demand and trade tensions. While manufacturing accounts for only 11% of GDP, it is an important lead indicator and the latest below-consensus data suggest that it may be slowing faster than expected.

Minutes from the Federal Reserve's May policy meeting where it left interest rates unchanged at 2.25-2.50% saw further calls for 'patience' before making further moves. As well as the growth picture, inflation data could be increasingly pivotal for the rate outlook. The Fed's preferred gauge of inflation – the core Personal Consumption Expenditure measure – remained low at 1.6% y/y in April and below the 2% target (though before any impact from recent tariff hikes); continued softness would challenge Fed Governor Jay Powell's earlier contention that it was being kept low by transitory factors. Although financial markets have long priced-in one rate cut this year, low inflation and growth concerns have seen expectations of a second (and even third) cut gain traction. In a further dovish signal, the 10-year/3-month treasury yield gap again inverted – a technical measure often seen as a good predictor of a recession.

EUROPEAN ELECTIONS ERODE SUPPORT FOR CENTRIST POLICIES

News on the Eurozone economy has been relatively positive, continuing the broad recovery from last year's slowdown. GDP in Germany – worth almost 30%

of the region's total – rebounded a solid 0.4% q/q in 1Q19, having narrowly avoided a recession in 2H18 and in line with the Eurozone average. However, the economy still faces near-term headwinds amid slowing global trade and calls for fiscal stimulus; reflecting the still uncertain outlook, yields on 10-year government bonds had plunged back firmly into negative territory at -0.2% at end-May – even below those in Japan. In France, where GDP grew 0.3% in 1Q19, unemployment fell to a 10-year low of 8.7% in Q1 despite popular unrest.

Elections to the European Parliament saw mainstream parties lose out to less traditional rivals in both the pro and anti-EU camps. The fracturing could make it more difficult to forge consensus on policy issues like the budget, regulation, the environment and immigration. It will also affect the scramble for nominations to the region's top jobs, including for the head of the European Central Bank when current president Mario Draghi departs in October. Although Germany is advancing the case for its hawkish candidate, Jens Weidmann, it may yield to another country's choice if it manages to secure one of the other top jobs. This could become pivotal given Weidmann's criticism of the ECB's ultra-loose monetary policy.

Political upheavals were perhaps greatest in the UK, where Prime Minister Theresa May was forced to resign over her handling of Brexit, and her Conservative Party was trounced in European elections by a combination of the newly-formed Brexit Party and on the other side by pro-Remain parties. May's replacement as PM could be appointed in July and is likely to take a more pro-Brexit stance, including trying to renegotiate the withdrawal agreement with the EU before the end-October scheduled departure date. Risks of the UK leaving the EU without a deal have risen, but so have the prospects of a general election that could usher in a new left-wing government and perhaps a change of Brexit stance, including another referendum. Given the uncertainty, the pound could remain under pressure, having fallen around 3% versus both the US dollar and euro through May.

JAPAN'S GROWTH SEES SURPRISE PICK-UP IN 1Q19

Japanese growth surprised on the upside in 1Q19, accelerating from a revised 1.6% in 4Q18 to 2.1% and defying expectations of a 0.2% decline. Contributions from consumption and investment remained positive, but the external sector continued to struggle on fallout from US-China trade tensions. Indeed, latest trade data showed exports declining for the fifth straight month in April. The surprise jump in economic activity suggests that the Japanese authorities are likely to proceed with the planned sales tax hike in October, despite calls for delays given growing concerns over the external climate.

CHINESE RENMINBI FALLS AMID GROWTH / TRADE CONCERNS

Chinese exports witnessed a surprise drop in April, ahead of potentially higher US tariffs. Exports fell by 2.7% y/y in April reflecting the ongoing weakness in external demand. In contrast, imports improved and grew for the first time in five months, which may be indicative of a recovery in domestic conditions thanks in part to stimulus measures that were announced in recent months, including tax cuts and an ease in monetary conditions. Having been relatively stable earlier this year, the Chinese renminbi declined by 2.5% versus the US dollar to RNB6.9/US\$ in May amid trade and growth concerns. The central bank has reportedly vowed not to allow the currency to fall past the 7 mark amid fears of capital flight.

GROWTH FEARS WEIGH ON OIL PRICES IN MAY

Oil prices recorded their first monthly decline of 2019 in May, with Brent falling 11% m/m to \$64.5/bbl. Prices were hit by concerns over deteriorating US-China trade relations, suffering their biggest one-day sell-off of the year on the 23 May (-4.5%), and by President Trump's decision to impose tariffs on imports from Mexico in the last week of May. Oil's fall came despite a higher geopolitical risk premium following the alleged sabotage of Saudi oil tankers and oil infrastructure by Iran or its proxies. Nevertheless, while trade tensions and softer US economic data are casting a shadow on global oil demand, oil

fundamentals remain supportive: OPEC+ continues to withdraw barrels from the market (OPEC-11 production cut compliance was 150% in April); output from Venezuela and Iran remains in free-fall; and OECD oil stocks are trending downwards, posting a second consecutive month of decline in March to reach 2,849 mb, according to the IEA.

PMIS SIGNAL STRONGER ACTIVITY IN SAUDI AND THE UAE

In the GCC, PMIs show the private sector non-oil economy continuing to improve. Output and exports were up in Saudi Arabia in April, with the headline PMI reaching 56.8, while in the UAE, the PMI climbed to a one-year high of 57.6 on gains in new orders and output. Inflation continues to trend lower, however, with Saudi inflation falling to -1.9% in April, the fourth consecutive month of deflation. In its recently concluded Article IV consultation, the IMF forecast Saudi non-oil growth and overall growth to reach 2.9% and 1.9%, respectively. The agency noted that fiscal, labor and capital market reforms have generally yielded some positive results, though economic diversification remains a work in progress.

In the UAE, the central bank expects non-oil GDP growth to rise to 1.8% from 1.3% in 2018, though it has revised down total growth to 2% from the previous estimate of 3.5% on lower oil sector output. Meanwhile in Bahrain, the authorities halted their subsidy reform plans due to concerns over social unrest and signaled that they would take longer than 2022 to balance the budget. They later announced that they would not likely meet several key fiscal targets, some of which were linked to the \$10 billion GCC financial assistance package.

NBK: ECONOMIC RESEARCH

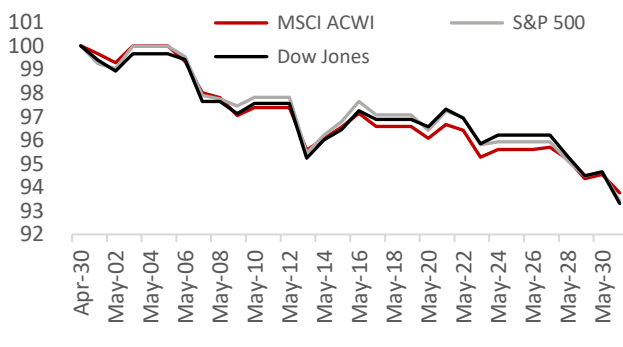
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GLOBAL EQUITIES

The market rally which started at the beginning of the year came crashing down in May after the US-China trade talks broke down and tariff rhetoric regained central stage. President Trump suddenly imposed new tariffs on Chinese imports, China retaliated, and trade tensions escalated sending investors into a risk-off mode and safe havens. Global equity markets went into a downward spiral fueled by concerns over global growth and bond markets rallied. Most equity markets recorded high single-digit losses during May sending their returns for the second quarter into negative territory. The MSCI AC World Index lost 6.23% during the month while losses for the MSCI Emerging markets Index were about 7.53%.

Chart 1: MSCI ACWI, S&P 500 & Dow Jones



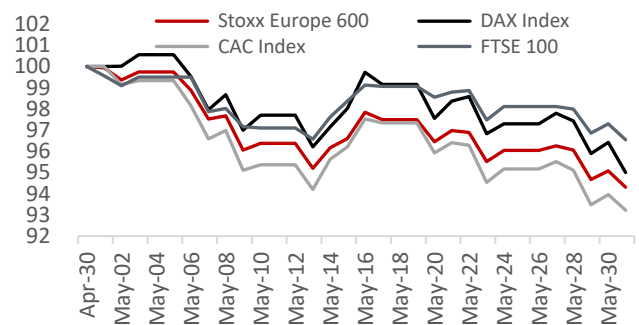
Source: Bloomberg (figures rebased)

Minutes of the April 30-May 01 FOMC meeting were released on May 22 and showed more members calling for patience before making further interest rate moves, while some members were worried about persistently low inflation. Core Personal Consumption Expenditures (PCE) recorded 1.6% in April, well below the Fed’s target of 2.0%, while preliminary Q1 2019 figures released at the end of May showed the measure at 1.0% compared to expectations of 1.3%. Weak inflation along with the effects of trade tensions over both global and US growth have increased market expectations of seeing multiple rate cuts during the year. Manufacturing activity continued to weaken during the month in the US. The May preliminary Markit Manufacturing PMI estimates came in at 50.6 versus expectations of 52.5 and a previous reading of 52.6 for April, which is very close to contraction

territory amid concerns about an export slowdown caused by trade tensions.

US Indices trended down during the month erasing gains of the past three months. The S&P 500 and the Dow Jones Industrial Average were down 6.58% and 6.69%, while the tech heavy Nasdaq lost 7.93%. All three indices are now in negative territory for the second quarter at -2.91% and -4.30% for the S&P 500 and the Dow and 3.57% for the Nasdaq. The Dow fell more than 300 points on the last trading day of May posting a sixth straight week of declines which is its longest losing streak since 2011 according to the Wall Street Journal. Treasury yields were in free fall during the month. The 10-year yield dropped from 2.50% at end of April to 2.14% at the end of May going back to levels last seen in September 2017.

Chart 2: European and UK Equities



Source: Bloomberg (figures rebased)

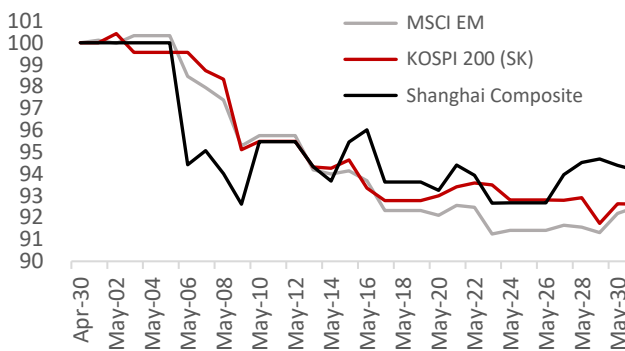
European Indices followed suite with the Stoxx Europe 600 erasing 5.70% of its value and turning its Q2 2019 performance into a negative 2.65%. The German DAX was down 5.0% and the French CAC40 retreated by 6.78%. Manufacturing activity in Europe continued to trend down since the beginning of 2018 with the May preliminary Markit Manufacturing PMI reaching 47.7 compared to estimates of 48.1 and a previous reading of 47.9 for April.

Over in the UK, the FTSE 100 ended the month down 3.46% and down 1.61% for the second quarter so far. Prime Minister Theresa May announced her departure from office after failing to bring a closure to Brexit and her party’s loss in the European elections which brings a host of new uncertainties to the whole Brexit

resolution issue. Earlier in the month preliminary UK GDP figures showed a growth of 1.8% for the first quarter 2019.

In Asia, the Japanese economy surprised on the upside with Q1 2019 preliminary GDP growth recorded 2.1% up from a revised 1.6% for the fourth quarter 2018. The Nikkei 225 Index, however, was hit hard by the global slump in equities as it retreated by 7.45% during the month bringing its second quarter return to a negative 2.85% as at the end of May.

Chart 3: MSCI EM vs South Korea vs China



Source: Bloomberg (figures rebased)

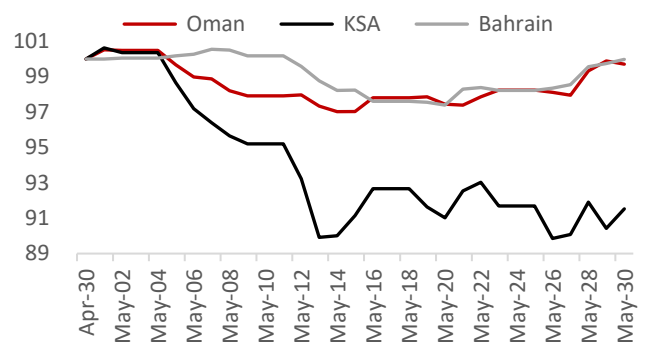
Emerging markets also broke their winning streak with a widespread retreat across indices. The MSCI EM Index was down 7.53% during May led by losses in Emerging Asia as the MSCI Asia ex-Japan Index lost 8.94% during the month. Notable losers included Turkey’s Borsa Istanbul Index which declined 5.06%, Shanghai Composite with a decline of 5.84%, and Taiwan Stock Exchange with -4.28%.

REGIONAL EQUITIES

Record compliance with the OPEC+ production cuts, which reached 150% in April, and supplies from Venezuela and Iran declining sharply, in addition to OECD oil stock continuing to trend downwards and the intensifying geopolitical risks in the Middle East, weren’t enough to support oil prices during May. Concerns of intensifying trade wars, especially after President Trump threatening to impose trade tariffs on Mexico, and fears of a global economic slowdown caused a sharp decline in oil prices during the month. Brent was down 11.41% to \$64.49/ bbl., while WTI declined 16.29% to \$53.50/ bbl.

Weak oil prices, geopolitical tensions in the region, and the waning effect of the MSCI upgrade of Saudi Arabia, in addition to the global market declines exerted pressures on the performance of the equity markets in the GCC and the Middle East regions. The S&P GCC Composite saw declines of 5.81% during the month led by significant losses in Saudi Arabia.

Chart 4: Performance of Oman, KSA, & Bahrain



Source: Bloomberg (figures rebased)

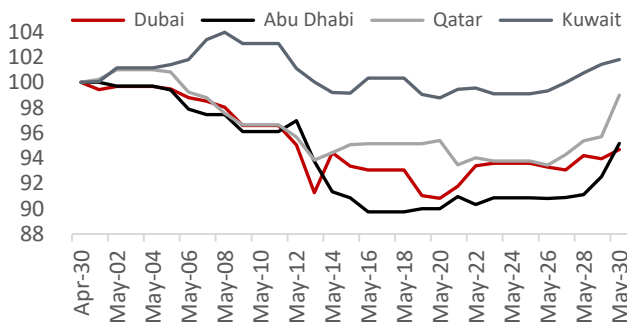
The Tadawul All Share Index was the loss leader in the GCC during May as it declined by 8.47%. on year-to-date basis the index is now up 6.33% after having been among the top performers in the GCC with a YTD return of 13.34% as at the end of April. A series of catalysts coincided to cause such a decline. These included the geopolitical tensions in the region, the fading effects of the MSCI upgrade and the ensuing profit taking, declines in oil prices, in addition to the global risk-off sentiment that swept the markets during May and fears of a global slowdown caused by intensifying trade wars led by the U.S. and China. In other economic developments, according to the Saudi General Authority for Statistics, trade surplus in Saudi Arabia increased more than 80% during 2018, or the equivalent of SAR 262.47 billion to record SAR 589.9 billion on the back of increasing oil exports.

Equity markets in the UAE also posted losses during the May with indices reaching their lowest point around mid-month when geopolitical tensions were at their peak. In Dubai, the DFM General Index declined by 5.3% bringing its total return since the beginning of the year to 3.58% down from 9.4% as the end of April. Abu Dhabi’s ADFX General Index, on the other hand, was down 4.84% and 1.80% for the first 5 months of 2019.

Declines in Qatar ended up generally less severe than its GCC peers, with the Qatar Exchange Index down 1.0% at the end of May. During the month, however, losses reached more than 6.50% at the peak of the military tension between the US and Iran and after the oil tankers in the UAE were sabotaged and the oil facilities in Saudi Arabia attacked.

The same performance pattern seen in most Gulf markets was applicable to the Oman. The MSM 30 index was down by as much as 2.98% by mid-May before stabilizing and then recovering by end of month to close down marginally at -0.29%.

Chart 5: Performance of Dubai, Abu Dhabi, Qatar & Kuwait



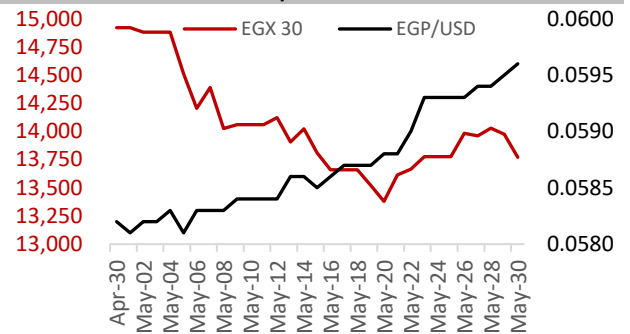
Source: Bloomberg (figures rebased)

Bahrain also managed to close almost unchanged at -0.03% after recouping most of its losses which peaked at 2.61% on May 20. The Bahrain Bourse All Share Index is now up 1.43% for the second quarter to May and 7.20% since the beginning of 2019.

After a strong start in the first week of May which led the Bursa Kuwait All Share index to an increase of 3.96%, the market succumbed to regional pressure and declined to a low of -1.23% by May 20. Kuwait, however, managed to close the month in the green after all and was the only GCC market to post profits during the month as the Bursa Kuwait All Share Index managed to finish the month up 1.81%. The positive performance was led by blue-chip names as the Kuwait Premier Market Index was up 3.22% in May. On year-to-date basis, the Premier market index is up 18.51%, while the All Share Index is up 12.84%

The broader S&P Pan Arab Index finished the month of May down by 5.40%, slightly outperforming the GCC Index. For the year, however, the index is now up 6.44%, underperforming the S&P GCC Composite Index by a little less than two percentage points and outperforming the MSCI EM Index by more than three percentage points.

Chart 6: EGX 30 Index & EGP/USD



Source: Bloomberg

Egypt's EGX30 recorded a sharp decline of 7.70% bringing its year-to-date returns to 5.64% down from 14.46% as at the end of April. Other notable decliners include Morocco's MADEX and Jordan's ASE Indices which retreated by 1.65% and 0.27% respectively.

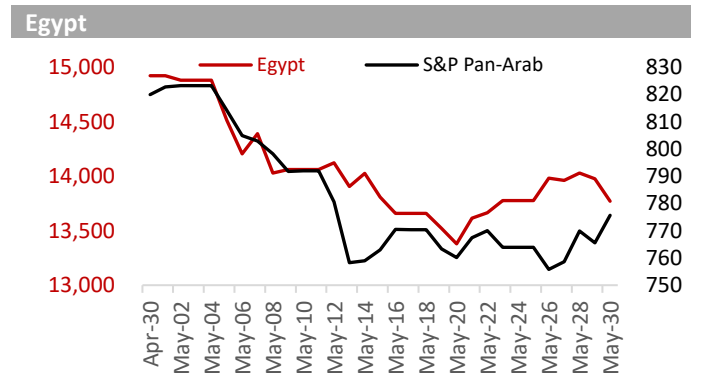
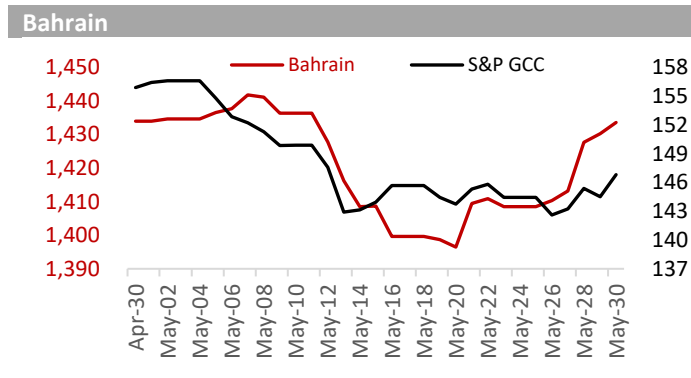
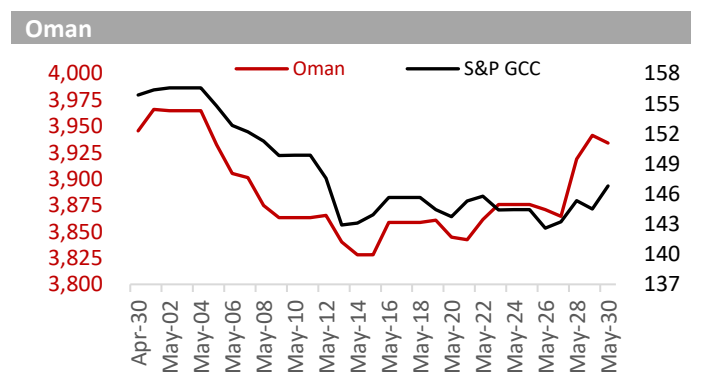
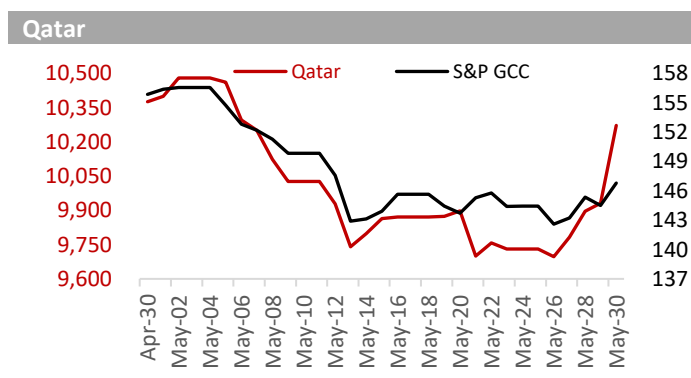
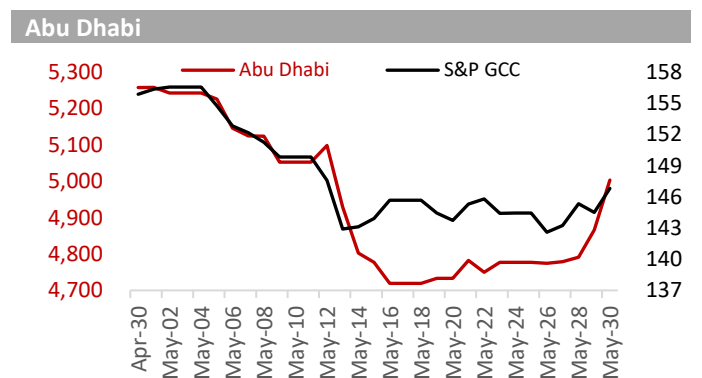
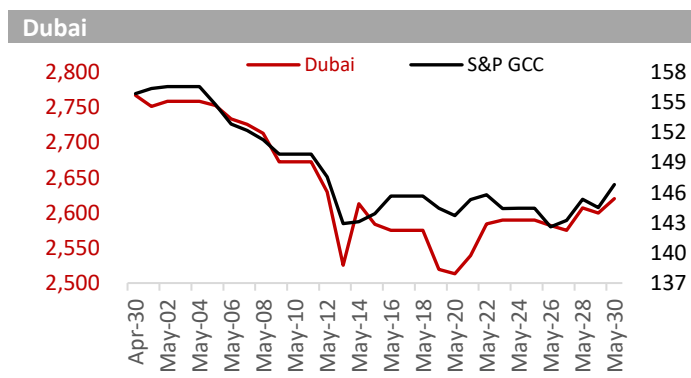
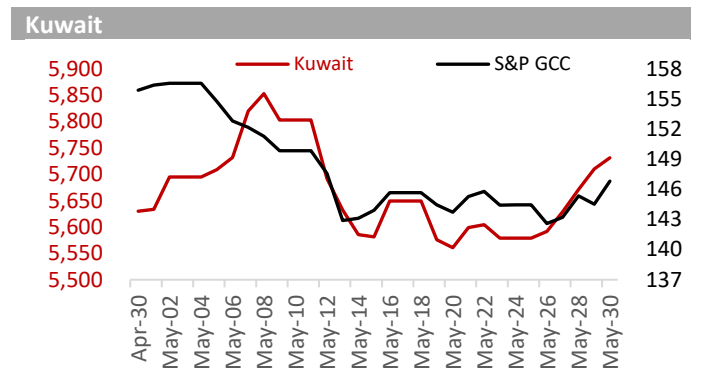
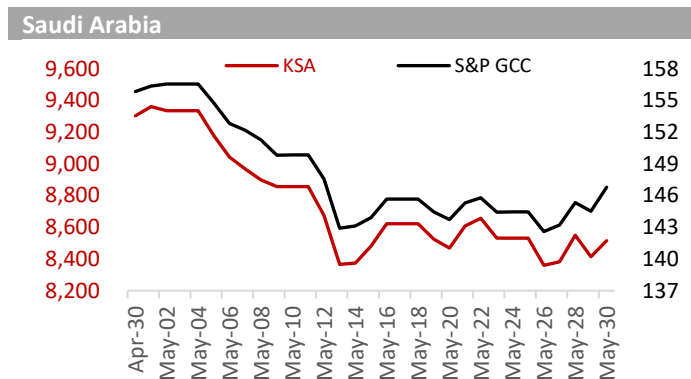
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Stock Market Performance – as of May 31, 2019:



All indices are in local currencies, except for the S&P GCC and S&P Pan Arab, both of which are denominated in USD.

Source: Bloomberg

Market Data – as of May 31, 2019:

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	492.12	-6.23%	-3.23%	8.00%	-3.27%
MSCI EAFE (USD)	1,817.39	-5.42%	-3.09%	5.67%	-8.50%
MSCI EM (USD)	998.00	-7.53%	-5.68%	3.34%	-10.95%
US					
S&P 500 Index	2,752.06	-6.58%	-2.91%	9.78%	1.73%
Dow Jones Industrial Average	24,815.04	-6.69%	-4.30%	6.38%	1.64%
NASDAQ Composite Index	7,453.15	-7.93%	-3.57%	12.33%	0.15%
Russell 2000 Index	1,465.49	-7.90%	-4.82%	8.67%	-10.29%
Developed					
Stoxx Europe 600	369.06	-5.70%	-2.65%	9.30%	-3.65%
FTSE 100 Index	7,161.71	-3.46%	-1.61%	6.44%	-6.73%
DAX Index	11,726.84	-5.00%	1.74%	11.06%	-6.97%
CAC 40 Index	5,207.63	-6.78%	-2.67%	10.08%	-3.53%
Nikkei 225	20,601.19	-7.45%	-2.85%	2.93%	-7.21%
Hang Seng Index	26,901.09	-9.42%	-7.40%	4.08%	-11.71%
Emerging Markets					
Russia Stock Exchange	2,665.33	4.14%	6.74%	12.49%	15.74%
Turkey - Borsa Istanbul 100 Index	90,589.73	-5.06%	-3.41%	-0.75%	-10.00%
MSCI Asia ex Japan	615.33	-8.94%	-7.26%	3.14%	-13.22%
Shanghai Composite	2,898.70	-5.84%	-6.21%	16.23%	-6.36%
India - NIFTY 50	11,922.80	1.49%	2.57%	9.76%	11.05%
Taiwan Stock Exchange	10,498.49	-4.28%	-1.34%	7.93%	-3.46%
Brazil Ibovespa Index	97,030.32	0.70%	1.69%	10.40%	26.42%
Mexico Stock Exchange	42,749.16	-4.14%	-1.23%	2.66%	-4.28%
MENA					
S&P Pan Arab (USD)	775.63	-5.40%	-1.50%	6.44%	5.61%
S&P GCC Composite (USD)	146.81	-5.81%	-1.27%	8.17%	10.65%
KSA - Tadawul All Share Index	8,516.48	-8.47%	-3.44%	8.81%	6.33%
Dubai - DFM General Index	2,620.33	-5.30%	-0.55%	3.58%	-9.93%
Abu Dhabi - ADX General Index	5,003.59	-4.84%	-1.40%	1.80%	9.80%
Qatar Exchange Index	10,273.01	-1.00%	1.64%	-0.25%	15.22%
Boursa Kuwait All Share Index	5,731.67	1.81%	2.03%	12.84%	20.81%
Oman - Muscat Securities Market 30 Index	3,934.15	-0.29%	-1.24%	-9.01%	-14.42%
Bahrain Bourse All Share Index	1,433.52	-0.03%	1.43%	7.20%	13.70%
Egypt - EGX 30	13,771.31	-7.70%	-6.10%	5.64%	-16.10%
Morocco - MADEX	8,941.19	-1.65%	1.03%	-3.16%	-10.64%
Jordan - ASE Index	1,806.50	-0.27%	-6.37%	-5.36%	-13.81%

*All Indices are in local currency, unless otherwise noted.

Source: Bloomberg

Market Data – as of May 31, 2019:

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Aggregate Bond (USD)	581.42	0.96%	0.72%	3.07%	3.32%
Barclays US Aggregate Bond	2,144.78	1.78%	1.80%	4.80%	6.40%
US Government Total Return Value Unhedged (USD)	2,276.24	2.33%	2.05%	4.20%	6.26%
Bloomberg Barclays US Corp Bond Index	3,033.53	1.43%	1.98%	7.23%	7.45%
Bloomberg Barclays US Corp High Yield Bond Index	2,052.37	-1.19%	0.22%	7.49%	5.51%
Global Treasury ex US Total Return Index Value Unhedged	646.74	1.49%	0.69%	2.09%	0.96%
Global Agg Corporate Total Return Index Value Unhedged	263.12	0.68%	1.14%	5.34%	4.41%
JPM Emerging Market Bond Index (USD)	827.22	0.57%	0.69%	7.33%	6.95%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,324.26	-0.16%	-0.26%	5.98%	5.24%
US Treasury Yields (%)	Current	3 M ago	6 M ago	12 M ago	
3 Month Yield	2.340	2.430	2.342	1.895	2.340
2 Year Yield	1.922	2.553	2.787	2.427	1.922
5 Year Yield	1.911	2.556	2.813	2.696	1.911
10 Year Yield	2.125	2.753	2.988	2.859	2.125
30 Year Yield	2.569	3.123	3.290	3.025	2.569
Global Treasury Yields (%)	Current	3 M ago	6 M ago	12 M ago	
British 10 Year Gilt	0.886	1.296	1.364	1.230	
German 10 Year Bund	-0.202	0.183	0.313	0.341	
Japan 10 Year Treasury	-0.094	-0.007	0.092	0.040	
Commodities					
Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,305.58	1.72%	1.02%	1.80%	0.54%
Silver Spot	14.59	-2.40%	-3.47%	-5.81%	-11.16%
Energy					
WTI Crude	53.50	-16.29%	-11.04%	17.82%	-20.20%
Brent Crude	64.49	-11.41%	-5.70%	19.87%	-16.88%
Natural Gas	2.45	-4.70%	-7.81%	-16.53%	-16.87%
Currencies					
Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD	1.117	-0.41%	-0.44%	-2.60%	-4.48%
GBP-USD	1.263	-3.09%	-3.11%	-0.98%	-5.03%
USD-JPY	108.290	-2.81%	-2.32%	-1.28%	-0.49%
KWD-USD	3.285	-0.04%	-0.10%	-0.33%	-0.72%
Interbank Rates (%)					
		1M	3M	6M	12M
London Interbank		2.431	2.503	2.517	2.510
Saudi Interbank		2.729	2.850	2.944	3.101
Emirates Interbank		2.617	2.743	2.923	3.092
Qatar Interbank		2.630	2.834	3.030	3.320
Kuwait Interbank		2.438	2.688	2.875	3.125

Source: Bloomberg

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