Monthly Markets Review

November 2016

HIGHLIGHTS

- Trump moves market after an unforeseen win
- OPEC cuts production, sending prices soaring
- Saudi Arabia’s Tadawul rallies 16.4%
- Egypt floats currency; market rallies 36.6%

Investment Advisory Department

Global Macroeconomics

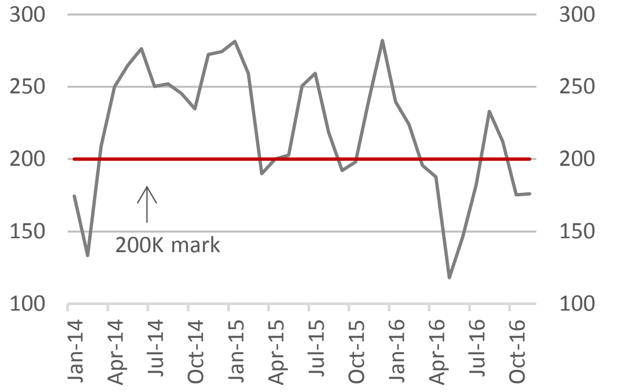
At its November 30 meeting, OPEC surprised the markets by announcing a 6-month deal to reduce its output to 32.5 million barrels per day, a cap on Iranian production, and a presumed commitment by non-OPEC members to also cut production. Though some details on implementation and compliance are still missing, the agreement is clearly a serious effort by OPEC to rein in global crude supplies—and the markets certainly reacted favorably to the deal. They pushed Brent well above $50 per barrel ($/bbl), a level that has been hard to sustain so far this year. The GCC equity markets were, of course, helped by the news and rose in the aftermath. It was also good news for US shale producers, and for major central banks trying to shore up inflation.

Chart 1: Benchmark Crude Oil Prices, $ per Barrel

Source: Thomson Reuters Datastream

In the US, the latest nonfarm payroll gains of 178K in November and a drop of the unemployment rate to 4.6%, all but guaranteed that the Fed would hike its policy interest rate on December 14 (FOMC meeting). The federal funds rate target is expected to go from a range of 25-50 bps to 50-75 bps. This would be the second rate increase by the Fed in the current cycle, the second since December 2015.

Chart 2: Non-Farm Payroll Monthly Gains



Source: BLS (3 Month Moving Average, 000s)

Other recent healthy US economic data (GDP, retail sale, PMIs) which predate the Trump election, as well as president-elect Trump's promises of further economic stimulus, have both led to higher US interest rates. The 10-year US note is now yielding near 2.4%. With the recent election and promised stimulus, we now think it is reasonable to look for two rate hikes in the US next year. We had been looking for only one prior to the surprise election of Mr. Trump.

November saw two other elections. In Austria, the pro-EU candidate defeated his far-right opponent in a presidential election, which must have tremendously relieved the pro-EU parties, politicians and their followers. Not so in Italy, where a referendum, again, saw an establishment candidate/sitting politician, PM Mario Renzi, lose by a wider than expected margin (60%-40%). The election was technically to reform the constitution, but turned inevitably into a plebiscite on Renzi himself, now resigned. There was/is concern about the ability of a new government to help troubled and undercapitalized Italian banks and also about the rise of anti-EU sentiment as Europe faces important elections in France, Germany and the Netherlands in 2017.

Nonetheless, the EU and other markets took the Italian results in stride, rising on the day. There continues to a sense that the central banks and governments will continue (and succeed) in doing "whatever is necessary" to keep markets and economies afloat. The markets took two weeks to adjust or to ignore Brexit (for now), one day to digest Mr. Trump's election, and less than that for Renzi's defeat. These political shocks seem to have become "routine". Resilience is good, complacency not so much, and sometimes it's hard to tell one from the other.

Going into year-end, markets are "happy", with equities, oil, the US dollar and interest rates near or at their best levels of the year (historic ones for US equities).

Regional Macroeconomics

Local economies and markets are bound to benefit from the overall positive sentiment, and certainly from higher oil prices. Equities, which had been underwater for most of the year, are finally in the black or close to that on a year-to-date basis.

In Kuwait, Prime Minister Sheikh Jaber Al-Mubarak Al-Sabah was reappointed to form the next government following parliamentary elections. The elections saw 60% of the National Assembly's members replaced. The move was no surprise and reflects intentions to continue with the outgoing government's overall agenda, including its commitment to maintain capital spending plans while pursuing fiscal reform.

In the region overall, growth, though softer, remains in decent shape in the non-oil economy, as attested by PMI and other data. We continue to expect moderate growth in the GCC for the next 2 years, close to 2% overall, and around 3% on a non-oil basis (led by Kuwait and Qatar). Sovereign debt issuance also continues apace, with Saudi recently raising some $17.5 billion on the international markets, soon to be followed by Kuwait. In light of the above, we seem to be in the early stages of renewed interest in the region, on the part of foreign investors, both on the fixed-income and on the equity sides.

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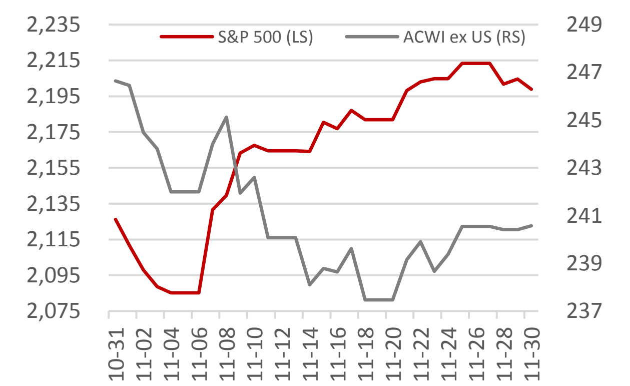
Global Equities

Global capital markets were mixed this month, following the results of the U.S. elections; U.S. equities fell sharply after the news of Trump's victory, but quickly recovered and unexpectedly rallied to historical highs as investors shifted their focus on the possibility of a more pro-growth, equity friendly political environment, as noted earlier. The Trump campaign package would involve both household and corporate tax cuts, along with extra infrastructure and defense spending. The plan, specifically infrastructure spending, could add around 2% to US GDP by 2018.

U.S. stocks, as measured by the S&P 500, ended the month up 3.4%. While global markets did not perform as well. The MSCI All Country World Index excluding US, which covers approximately 85% of the global equity outside the US, was down 2.5% on the dollar's strength and the uncertainty surrounding U.S. foreign policy and trade.

Chart 3: MSCI ACWI ex US & S&P 500 Performance

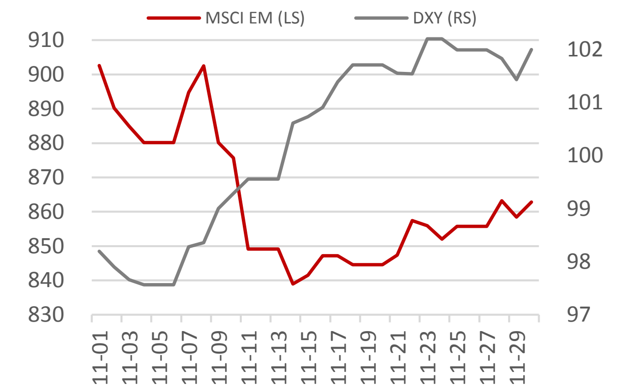


Source: Bloomberg

U.S. Inflation prospects have increased following Trump's win, as more U.S. government spending is expected, increasing the probability of a U.S. rate hike in December, which currently stands at approximately 100%. Yellen's November comments on the improvement of U.S. job market and economic data seemed to also confirm a rate hike.

The U.S. dollar strength, expectations of higher rates and uncertainty over U.S. foreign policies triggered a selloff in emerging markets. The MSCI Emerging Market Index was down 4.7%, as the dollar's appreciation hurts emerging-market ability to service dollar-denominated debt.

Chart 4: MSCI EM & US Dollar Index (DXY)



Source: Bloomberg

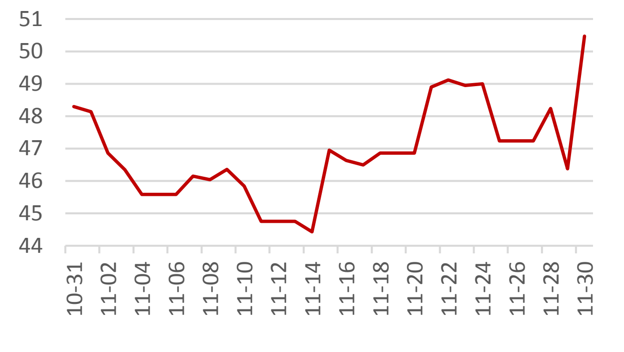
Overseas, European equities closed the month in the green, with the Stoxx Europe 600 Index closing slightly up 0.9%, since Trump's surprise victory. In Asia, Japan's Nikkei hit a 10-month high as the yen weakened, closing the month up 5.1%. A weaker yen makes Japanese exports attractive and increases the value of overseas profits.

Regional Equities

MENA equities continued to build on their October momentum and gained 4.9% as measured by the S&P Pan Arab Composite. The gains were mostly driven by Saudi.

GCC markets were lifted during the beginning of the month over optimism ahead of OPEC's November 30th meeting in Vienna to limit production. Although the market became uncertain of an agreement later in the month, OPEC members were able to reach a historic deal to cut production by 1.2 million barrels a day to 32.5 barrels, as detailed in the previous section. The agreement included big cuts from Saudi Arabia and Russia, a non-OPEC member. Non-OPEC producers are expected to decrease production by an additional 600,000 barrels a day. Russia said it would cut production by 300,000 barrels a day. Crude prices surged more than 8% after the announcement, helping Brent futures close the month up 4.5%.

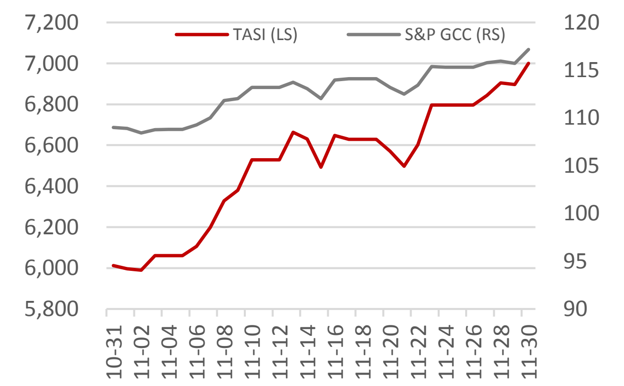
Chart 5: MTD Brent Oil Prices per Barrel



Source: Bloomberg

The Saudi Tadawul All Share Index was the best performing GCC index for the month, as it added 16.4%, and continued to build on gains seen in October, following the $17.5 billion foreign bond sale, which provided a big boost to liquidity and fueled expectations of a broader economic activity stimulus.

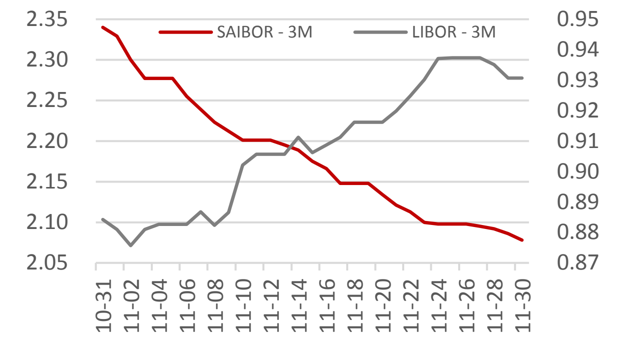
Chart 6: MTD TASI & S&P GCC



Source: Bloomberg

The three-month Saudi Arabia Interbank Offer Rate dropped as a sign that liquidity pressures continued to ease. The interbank lending rates have come down notably since the bond sale in October. The three-month SAIBOR ended the month lower, at 2.08%, although the LIBOR was in fact trending up during the same period.

Chart 7: 3M SAIBOR & 3M LIBOR



Source: Bloomberg

Saudi Arabia’s equity market was supported by the announcement that the government made SR40 billion in delayed payments it owed to contractors, which represents a quarter of the total amount owed. Fahad Al Hammadi, the head of the Council of Saudi Chambers’ National Contracting Committee, said that another SR100 billion will be paid by the end of next month.

Most sectors of the Saudi Tadawul Index gained, led by financials, energy and telecommunication stocks.

Dubai and Qatar shares, the most sensitive to foreign fund flows in the GCC, followed the emerging market trend and fell during the month of November. Dubai managed to recover some of the losses and ended the month slightly up at 0.9%. The DFM General Index sector returns were mixed during the month; financials, outperformed the general index, while telecommunication and consumer discretionary stocks both underperformed the market and ended the month in the red.

Qatar Bourse led the regional losses as it ended the month down 3.7% on foreign institutions’ net selling pressure. Most sectors were down in the Qatar Exchange Index but the main drag came from the highest weighted sectors: financials and real estate.

Abu Dhabi's index ended the month up 0.2% after gains during the month on speculation of more bank mergers, following the merger between First Gulf

Bank and National Bank of Abu Dhabi. The two banks combined create Abu Dhabi's largest bank. The merger could be seen as a catalyst for further consolidation in the UAE's financial services industry.

The sectors in the ADX General Index (ADI) had mixed performance with the financials and energy stocks finishing the month in the green while most of the other sectors fell during the same period.

The Kuwait Weighted Index added 2.8%, lifted by strong support from the banking sector, particularly the blue chip stocks. A notable pick up in volumes has also been noticed due to the increased interest from institutional investors on the back of better than expected earnings. The gains were supported with a bounce back in oil prices and improving investor sentiment, following the Kuwait Food Company (Americana) deal in October; Adeptio AD Investments (Adeptio) acquired 67% of the share capital of Kuwait Foods from Al Khair National for Stocks and Real Estate. This was one of Kuwait's largest ever merger and acquisition (M&A) transaction.

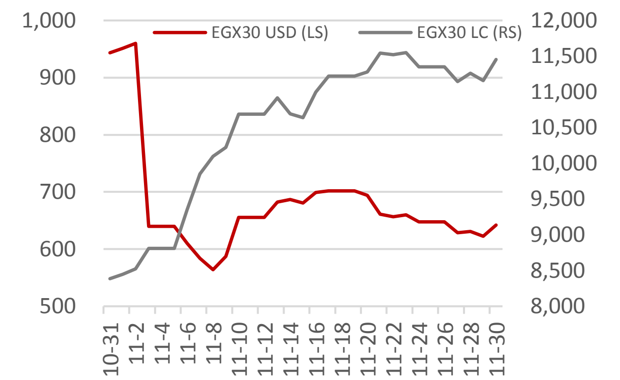
Financial and telecommunication stocks drove most of the gains in Kuwait Weighted Index in November to reach its highest level over the past 10 months.

Oman's MSM 30 Index managed to close the month with slight gains, up 0.2%, after falling sharply at the beginning of the month. The stock market rebounded following Moody's revised outlook on Oman's banking system to stable from negative. The stable outlook reflects expectations that bank credit profiles will remain broadly stable over the next 12 to 18 months. Further positive news was announced by Oman's banking regulator, relaxing specific provisions for restructured loans, in a move to ease the flow of credit. Moody's outlook, coupled with the government's commitment to ease credit helped propel the Omani Bourse and bring it back to the green, boosted by the financial sector.

The Bahrain Bourse All Share Index added a net 2.2% at the end of the month. This increase was due to gains in the financial sector, led by a surge in commercial bank stocks.

Egypt's EGX 30 index soared in November by 36.6% in local currency terms, following the central bank's decision to float the currency on November 3rd. The currency has since been devalued by approximately 50% against the US dollar. Free floating the currency helped reduce the devaluation risk that previously kept foreign money managers away. Foreign investors have been returning, with notable increases in overseas funds flowing into the country's stocks post devaluation.

Chart 8: EGX 30 Index (USD) & EGX 30 Index (Local Currency)



Source: Bloomberg

The Egyptian equity markets have also been boosted by the IMF's approval to provide Egypt with a $12 billion loan facility, with the first tranche of $2.75 billion to be disbursed immediately.

Although the EGX 30 Index climbed in November by 36.6% in local currency terms, it was down significantly in USD terms; The USD return was negative 31.9% in November and negative 28.3% year-to-date versus an increase of 63.5% in local currency for the year.

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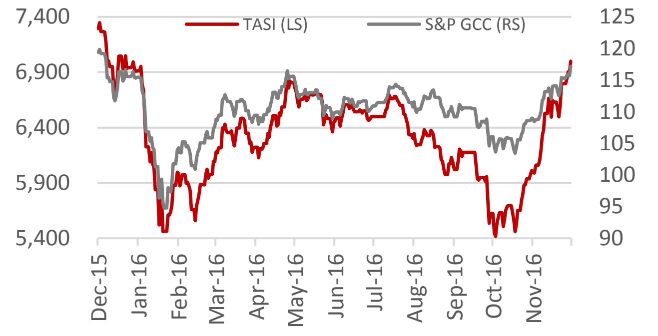
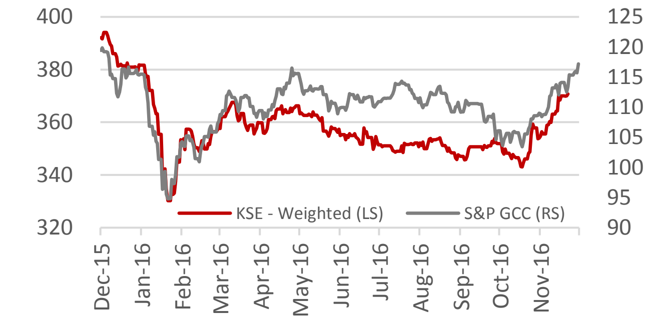
Stock Market Performance – *as of November 30, 2016:*

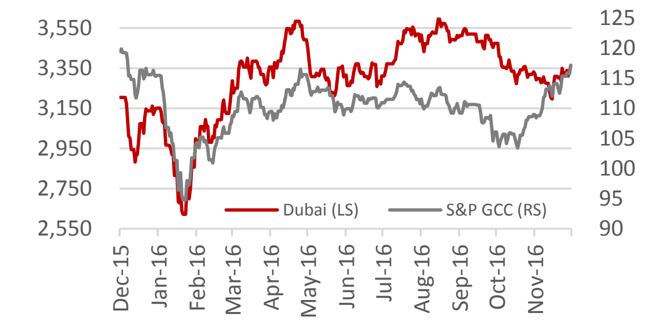
Saudi Arabia



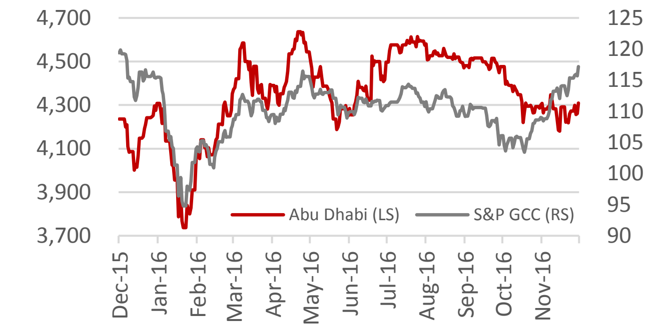
Kuwait



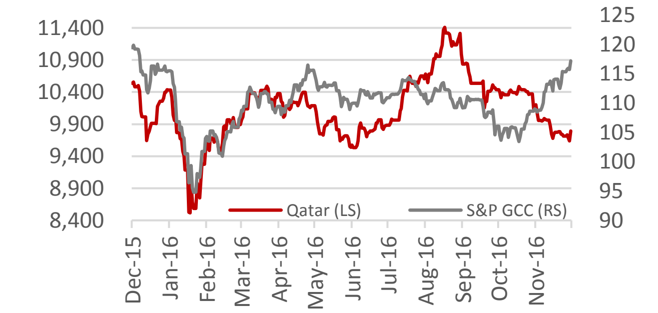
Dubai



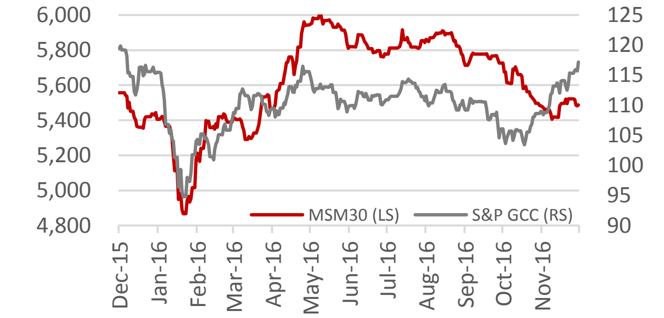
Abu Dhabi



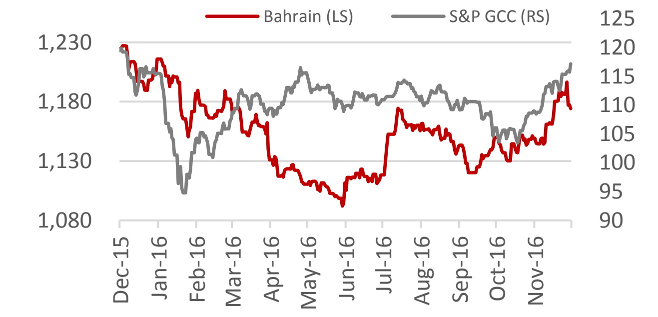
Qatar



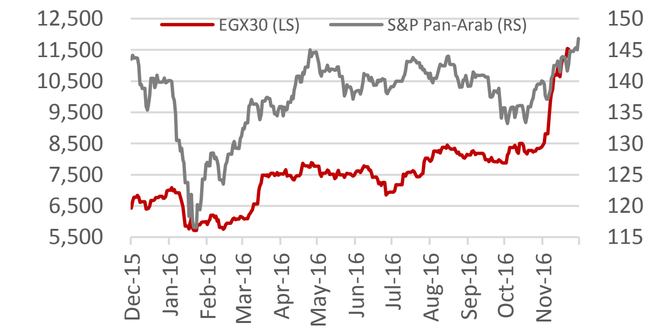
Oman



Bahrain



Egypt



LS: Left-side
RS: Right-side
All indices are in local currencies, except S&P GCC and S&P Pan Arab denominated in USD

Market Data – *as of November 30, 2016:*

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	413	0.6%	-1.2%	3.5%	0.6%
MSCI EAFE (USD)	1,630	-2.2%	-4.2%	-5.0%	-7.1%
MSCI EM (USD)	863	-4.7%	-4.5%	8.6%	4.5%
US					
S&P 500 Index	2,199	3.4%	1.4%	7.6%	4.6%
Dow Jones Industrial Average	19,124	5.4%	4.5%	9.7%	6.9%
NASDAQ Composite Index	5,324	2.6%	0.2%	6.3%	3.2%
Russell 2000 Index	1,322	11.0%	5.6%	16.4%	9.8%
Developed					
Euro Stoxx 600	342	0.9%	-0.3%	-6.5%	-11.0%
FTSE 100 Index	6,784	-2.5%	-1.7%	8.7%	6.1%
DAX Index	10,640	-0.2%	1.2%	-1.0%	-5.5%
CAC 40 Index	4,578	1.5%	2.9%	-1.3%	-6.8%
Nikkei 225	18,513	5.1%	11.3%	-3.8%	-8.5%
Hang Seng Index	22,878	-0.6%	-2.2%	4.0%	1.8%
Emerging Markets					
Russia Stock Exchange	2,105	5.8%	6.4%	19.5%	18.7%
Turkey - Borsa Istanbul 100 Index	73,995	-5.8%	-3.3%	3.2%	-3.6%
MSCI Asia ex Japan	526	-2.9%	-4.4%	5.3%	2.9%
Shanghai Composite	3,264	4.8%	8.2%	-8.2%	-6.0%
India - NIFTY 50	8,216	-4.7%	-4.5%	3.5%	3.4%
Taiwan Stock Exchange	9,264	-0.5%	0.8%	10.8%	9.2%
Brazil Ibovespa Index	61,906	-4.6%	6.1%	42.8%	37.4%
Mexico Stock Exchange	45,316	-5.6%	-4.1%	5.4%	3.0%
MENA					
S&P Pan Arab (USD)	149	4.9%	8.2%	5.0%	2.4%
S&P GCC Composite (USD)	117	7.5%	10.5%	1.5%	-1.9%
KSA - Tadawul All Share Index	7,000	16.4%	24.5%	1.3%	-4.0%
Dubai - DFM General Index	3,361	0.9%	-3.3%	6.7%	4.9%
Abu Dhabi - ADX General Index	4,309	0.2%	-3.7%	0.0%	1.7%
Qatar Exchange Index	9,914	-3.7%	-6.1%	-6.1%	-7.0%
Kuwait Weighted Index	368	3.7%	4.3%	-3.8%	-6.4%
Oman - Muscat Securities Market 30 Index	5,541	0.1%	-4.2%	1.5%	-1.3%
Bahrain Bourse All Share Index	1,174	2.2%	2.1%	-3.4%	-4.1%
Egypt - EGX 30	11,453	36.6%	45.3%	63.5%	78.3%
Morocco - MADEX	8,739	1.0%	6.4%	20.5%	17.9%
Jordan - ASE Index	2,171	3.0%	2.4%	1.6%	8.9%

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

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Market Data – *as of November 30, 2016:*

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	534	-3.5%	-6.0%	2.8%	3.0%
Barclays US Agg Bond	1,974	-2.4%	-3.1%	2.5%	1.8%
Bloomberg US Gov Bond Index	124	-2.6%	-3.6%	1.2%	0.6%
Bloomberg Barclays US Corp Bond Index	2,709	-2.7%	-3.5%	5.4%	4.1%
Bloomberg Barclays US Corp High Yield Bond Index	1,781	-0.5%	-0.1%	15.0%	11.9%
Bloomberg Global Dev Gov Bond Index ex - US (USD)	102	-5.8%	-10.2%	3.2%	4.5%
Bloomberg Global Corp Bond Index ex US (USD)	123	-3.1%	-5.0%	4.0%	3.5%
JPM Emerging Market Bond Index (USD)	729	-4.1%	-5.5%	8.7%	7.1%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,175	-2.7%	-3.2%	13.7%	11.6%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	0.48		0.71	0.75	0.87
2 Year Yield	1.12		0.71	0.75	0.87
5 Year Yield	1.85		1.10	1.21	1.71
10 Year Yield	2.38		1.51	1.70	2.31
30 Year Yield	3.04		2.23	2.55	3.09
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	1.42		0.52	1.38	2.01
German 10 Year Bund	0.28		-0.11	0.12	0.61
Japan 10 Year Treasury	0.03		-0.10	-0.11	0.30

Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,175.35	-8.1%	-10.8%	10.6%	11.8%
Silver Spot	16.55	-7.8%	-13.9%	19.2%	15.2%
Energy					
WTI Crude	50.06	5.5%	2.5%	33.5%	-10.2%
Brent Crude	52.51	4.5%	2.9%	35.4%	-14.8%
Natural Gas	3.34	10.8%	15.3%	43.4%	5.8%

Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.06	-3.6%	-5.7%	-2.5%	-0.2%
GBP-USD X-RATE	1.25	2.2%	-3.6%	-15.1%	-20.7%
USD-JPY X-RATE	114.00	9.2%	12.9%	-4.8%	-13.1%
KWD-USD X-RATE	3.28	-0.7%	-1.3%	-0.6%	-0.1%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	0.65	0.95	1.29	1.64
Kuwait Interbank	1.85	2.07	2.25	2.47
Emirates Interbank	0.76	1.35	1.67	2.14
Qatar Interbank	1.37	1.69	1.86	2.14
Saudi Interbank	1.19	1.50	1.75	2.06

Source: Bloomberg

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