Alkhabeer Capital

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ALKHABEER CAPITAL PRESENTS 2015 Q1 MARKETS UPDATE

Weakened Euro and lower interest rates suggest upside for Eurozone equities, but with risk

GCC Governments to maintain 'expansionary' budgets despite continuing downward pressure on oil prices

Jeddah, Saudi Arabia – 24 May 2015: Alkhabeer Capital, a leading asset management and investment firm based in Saudi Arabia, and authorized by the Capital Market Authority (license number 07074-37), has released its markets update for the first quarter of 2015. The report considers micro and macro factors concerning the global and regional economies, with specific insight in asset classes such as equities, fixed income, currencies and commodities.

Global Macro and GCC View**: Accommodative monetary policies from central banks suggest continuing weakness.**

Twenty four central banks have eased fiscal policies since the start of 2015 by either lowering interest rates or printing new money, according to the report. Especially noteworthy however, is that of these twenty-four markets, seven are from the top ten global economies. This suggests a continuing softness in the global economy with little propensity for significant growth in the near term.

That said, the report highlights conflicting data which suggests a more positive outlook from zones previously under pressure. A weaker Euro has made the Eurozone more competitive and this, combined with the aggressive fiscal stimulus packages of the EU countries and low oil prices, suggests more cause for optimism. Two manifestations of this are that Eurozone business activity rose at its fastest pace in nearly four years and German consumer sentiment reached a thirteen year high in March.

Such mixed messages cause Alkhabeer Capital to predict continuing Dollar strength against key peers, although with some volatility.

Other global issues addressed by the report are a softening of the Chinese economy and the likely factors impacting sentiment in the coming months, such as the UK general election in May and the continuing negotiations between Greece and its Euro bloc partners.

Concluding on macro issues, Alkhabeer suggests Dollar strength and relative Euro weakness as a clear sign to curtail optimism for US equities, and consider increasing exposure to Eurozone equities, noting that the previously mentioned factors such as Greek debt negotiations, suggest being overweight EU is not without risk.

GCC: Lower oil prices are not curtailing pro-growth expenditure by Gulf governments
As Alkhabeer Capital had predicted in its recently released 'Annual Outlook', government spending is set to continue despite the sharp fall in oil prices. With the exception of Kuwait, where budgets have been slashed by a fifth, the governments of the GCC continue to spend, focusing more on 'social' investments in infrastructure, education and health. Kuwait's relative underspend is attributed to familiar political paralysis.

Alkhabeer warns, however, of the fiscal pressures continually heightened spending will cause the exchequers of the GCC in the low oil price environment. A depletion of substantial asset and cash reserves is the only solution, with signs of this already evident from SAMA's recent revelation that net foreign assets dwindled by 1.4% - the first such year-on-year drop since 2010. S&P downgrades for Oman and Bahrain further support this hypothesis, as does the projected $38.6 billion deficit predicted in the 2015 Saudi budget. Clearly, continuing downward pressure on oil prices will add to those challenges, as will military conflict in Yemen. Despite this, KSA, Qatar and the UAE have the fiscal buffers to offer an adequate cushion, at least in the near term.

Other Report Highlights:

Capital Markets:
Generally, across all asset classes, Global Real Estate has been the stand-out performer in Q1 2015. Alkhabeer Capital attributes this to continuing signs of a strong US recovery, accommodative monetary policy in the Eurozone and Japan as well as improving demand from Asia. Equities from developed markets (ex-US) also fared strongly as EU monetary policy placated concerns over Greece and other issues.

US Equities:
Alkhabeer has lowered its expectations for US Equities following a mixed first quarter 2015 and concerns that Dollar's strength might hinder expansion possibilities to US corporates. 'Soft' economic data has caused several analysts to lower forecasts for US economic growth and corporates have followed suit in downgrading earnings forecasts. Nevertheless, Alkhabeer Capital continues to favour US equities with tempered expectations for the remainder of 2015.

EU Equities:
Conversely, Alkhabeer Capital is more bullish on Eurozone equities as the ECB's stimulus package continues to support the asset class. Combined with a weaker Euro and cheaper oil, Alkhabeer Capital remains positive on the EU equities, though caveated with a note of caution – a 'Grexit' (the exiting of Greece from European currency union), could lead to a sharp fall in the value of EU equities.

EM Equities
India is the standout market in the EM (emerging markets) universe, according to Alkhabeer Capital. India is set to benefit as a net energy importer from lower energy prices as well as the easing of monetary policy and ongoing structural reforms. Q1 had seen record highs in Indian stocks with a retrenchment at the end of the quarter. Overall, Alkhabeer Capital has a divergent view across emerging markets favouring energy importing Asian markets.

GCC Equities
Whilst considerable cause for optimism can be identified, there are concerns that prolonged oil price weakness could weigh on the asset class and there remains a constant threat from the sudden flare-up of geopolitical issues. On the upside however, KSA markets lead the region in Q1 as strong earnings boosted sentiment and the transition of power following the death of King Abdullah was seamless. Outlook remains strong for KSA where optimism centers on the boon predicted when the markets open to foreign investment. This positivity is also a likely catalyst in the UAE since its recent MSCI reclassification, although concerns about real estate equities may manifest themselves following dampening of demand due to recently imposed legislation and regulation in the sector, as well as the knock on effect from cheaper energy.

Fixed Income
- **US Yields Nudged Lower –** Bond yields were little changed due to the low inflationary environment, with 10 year yields slipping below the 2% mark. Accommodative policy is likely to remain unchanged in the near term, although 10 year yields are likely to rise as monetary policy normalises later in 2015.
- **Rally in Eurobonds –** With a paucity of options, the ECB asset buying programme has caused multi-year lows with several sovereign bonds at negative yields, despite a lack of any material structural reform in those markets. Downside of this programme is the stifled supply of top rated Eurobonds to

meet the demand caused by the Euro 1.1 Trillion acquisition target. Fear of further yield compression is unwarranted, with lack of reform and fears of a Greek exit suggesting a sharp spike in yields is possible.

Currencies

- **Dollar highs set to continue –** Softening sentiment on the Greenback may cause the Dollar rally to abate in the near term, but the likely end to abnormally supportive fiscal policy should see the Dollar end the year at fresh highs.

- **Political cacophony to cause parity in EU –** Despite signs of economic improvement in the zone, accommodative policy is unlikely to see a Euro rally before the end of 2016. With anti-EU parties rallying and other threats to the union, Euro/Dollar parity is likely, and likely soon.

- **'Wait and see' in the UK –** Although May's general election is a major factor, the largely independent Bank of England appears to be adopting a 'wait and see' strategy, with one opinion of the need of further rate cuts drowned out by the majority. Sterling is likely to hold its ground against the Euro – but could retest multi-year lows against the resurgent Dollar.

Commodities

- **Gold loses shine against powerful Greenback –** Gold was highly volatile in Q1 2015. Political uncertainty pushed prices up, not least the decision by the Swiss National Bank to de-peg the Swiss Franc, but a softening was then witnessed as the strengthening Dollar became the favoured safe-haven asset class. Alkhabeer Capital remains neutral on Gold, with political risk balanced by strong dollar and the prospect of higher interest rates.

- **Oversupply and Dollar strength to weigh on Oil Prices –** Alkhabeer Capital sees a bottoming out of oil prices at current levels with a rebound possible later in the year as lower prices continue to marginalise unconventional production. The report notes several factors though that counter this view – not least nuclear détente with Iran and OPEC's refusal to curtail supply.

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About Alkhabeer Capital

Alkhabeer Capital is a leading asset management & investment firm providing world-class investment products and services, that endeavors to help institutions, family groups and qualified investors access to and/or allocate capital in ways that deliver real and enduring economic value.

It is licensed by Saudi Arabia's Capital Market Authority (CMA) license # 07074-37. The asset management area provides investment opportunities through a large and growing portfolio of public and private funds in the areas of real estate, private equity and capital markets, while the investment banking area offers specialized Sharia compliant capital raising and M&A advisory services to businesses, private investors and families.

Alkhabeer Capital has offices in Jeddah and Riyadh.

For more details on Alkhabeer Capital, please visit www.alkhabeer.com

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https://twitter.com/AlkhabeerCap https://www.facebook.com/AlkhabeerCap

Contacts

Tariq Hayat
Alkhabeer Capital
Tel: +966 12 612 9394
t.hayat@alkhabeer.com