Stock Markets: The Big Gainers of 2016

BLOMINVEST BANK

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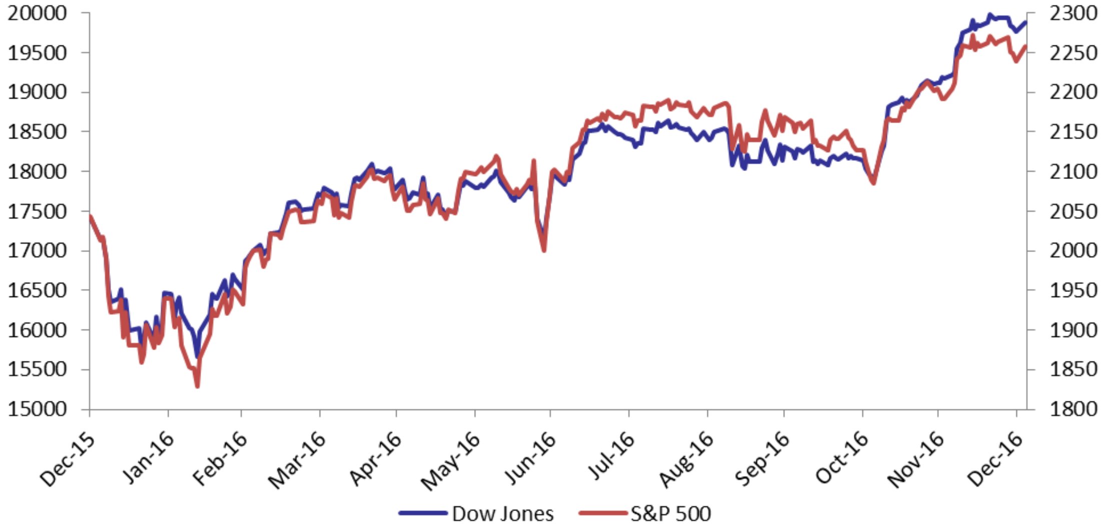
Several Dynamics Shaped Global Equities' Performance in 2016

2016 can be described as a revolutionary year in terms of political and economic events. The world's main movers saw their equities heavily fluctuate after the occurrence of each development topped by the Election of Donald trump to the aggravation of the Syrian crisis and the Brexit's declaration. This year was also marked by structural efforts to reduce overcapacity, geopolitical events—such as the coup d'état in Turkey and potential policy changes in the U.S. The beginning of the year debuted with plunge in global equities, as the Fed increased interest rates by 25 basis points, in December 2015, for the first time since 2006. Against this backdrop, many central banks in the developed world have maintained loose monetary policy which aims to support consumption and investment. Nonetheless, the year ended on a positive note for major indices.

When it comes to the U.S, the bourse managed to outperform the European and Eastern stock markets in 2016. The Dow Jones Index was positively impacted by global events and hence registered a 13.41% yearly rise. However, this year was nothing short of volatile. The index was dragged down to register a 2-year low, in February, amid tumbling oil prices and losses in the financial stocks. Nonetheless, The U.S. stock market has also managed to brush off a number of potentially unfavorable events, including the Brexit and the European Central Bank's decision to scale back its quantitative easing program. In fact, stocks rallied in the second half of the year and have been on an upward trend since the November 8 presidential elections that concluded with Trump winning. Investors believe that President Trump will push for policies that will accelerate economic growth in the country. Trump's election alongside the Brexit triggered policy changes on the monetary front to accommodate to the market's reactions. Hence, the Fed announced its interest rate hike in December and caused the index to register an all-high level of 19,974.62 points.

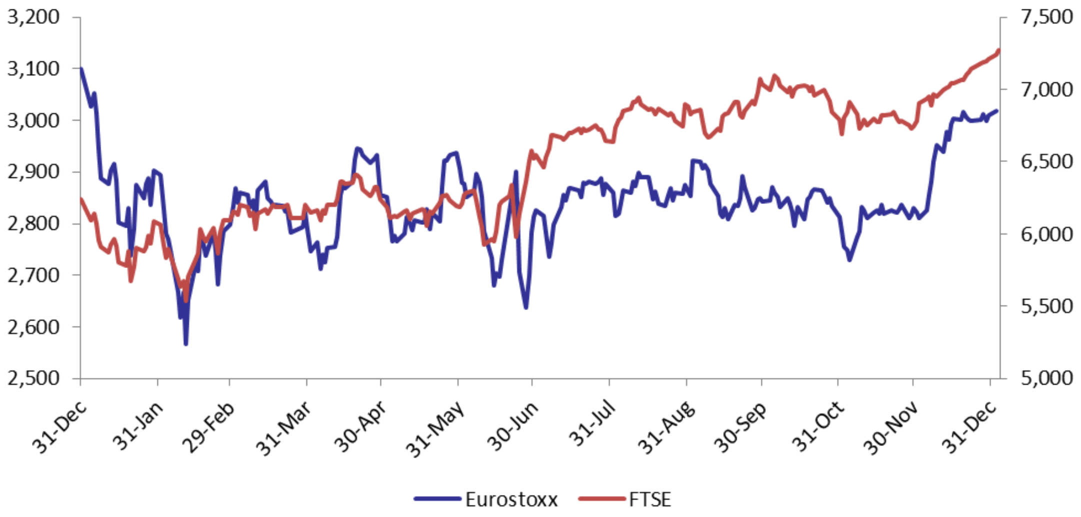
Yearly Performance of Dow Jones and S&P 500



Source: Reuters

As for Europe, uncertainties emerged related to several financial, economic, and geopolitical developments. Pre and post-Brexit as well as the European's Central Bank's quantitative easing commitment and Italy's referendum led the Eurostoxx 50 index to marginally improve 0.70%. However, the Brexit and Trump market shockwaves tumbled European stocks' performance the most in 2016. In addition, European stock markets have plummeted after Italian Prime Minister Matteo Renzi was dealt a defeat over his referendum on constitutional reform. This has led investors to worry over the possibility of new elections in Italy, the third-largest euro economy, and the impact that the ongoing political instability in the country will have on the Eurozone's banking system. As such, the ECB took measures to revive the European economy through renewing its commitment of quantitative easing in December 2016. Also, in regard to the forex market, the euro fell to the lowest level seen in years following the U.S. Federal Reserve's decision to hike interest rates.

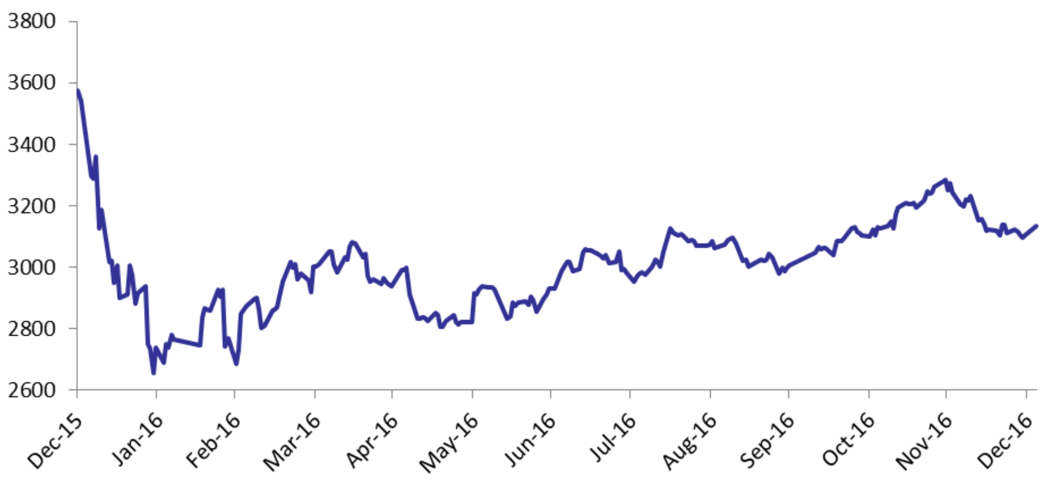
Yearly Performance of Eurostoxx 50 and FTSE



Source: Reuters

China's stock market ended they year in the red, as the Shanghai Composite Index recorded a 13% yearly drop this year. Chinese bourses have spent the year struggling against weak policies, capital breakouts and a depreciating currency. In fact, the Chinese yuan fell to its weakest in 8 years after the U.S. Fed signaled a faster pace of rate hikes. Also, the Chinese government has implemented strict capital controls as a response to the shrinking foreign currency reserves and to prevent citizens and corporations from taking money out of the country. Moreover, the index's drop partly resulted from the attempts of reducing the over-capacity in its coal and steel sectors.

Yearly Performance of Shanghai Composite Index



Source: Reuters

Oil Prices Remained the Main Barometer in the Arab World

The year can be labeled as a good year for most Arab bourses. This has resulted from more stable financial and exchange rate markets, adaptive monetary policies, a slight rise in oil prices and sturdier crude production.

For oil exporting countries, given that the last quarter of the year witnessed the recovery of oil prices, this has allowed their indices to end the year on a positive note. In fact, sluggish performance defined the year start as oil prices plunged in January when the OPEC oil basket price fell to $22.5/barrel, its lowest price in more than a decade. Nonetheless, in the first week of September global oil prices ramped up and approached $50/barrel on the back of a potential oil control deal. The beginning of December traced the path of higher oil prices as OPEC has agreed to cut oil production by 1.2 million barrels a day.

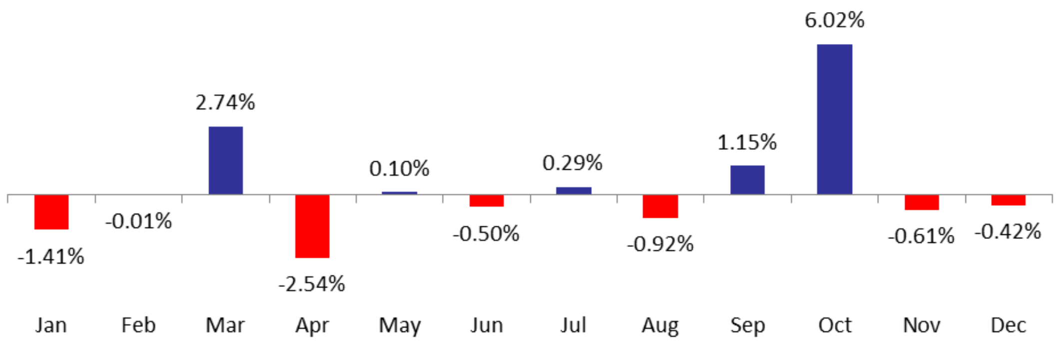
Starting with Saudi Arabia, the TASI recorded an overall 4.32% annual increase; however, the index witnessed several fluctuations during the year. In reality, the slightly higher oil prices and the $17.5 billion international bond issue in October lifted liquidity pressure from the domestic market. Still, economic activity has slowed down on the grounds of the austerity measures that the government implemented in an attempt to alleviate the fall in oil revenues. As for the United Arab Emirates, Abu Dhabi and Dubai's indices recorded respective yearly rises of 5.55% and 12.06%. Worth noting that in July, Abu Dhabi-based National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) announced that they would merge to form one of the largest banks in the Middle East and Africa, with assets of around $175 billion.

Separately, the Egyptian bourse recorded, in 2016, one of the most remarkable performances on the back of governmental measures put in place to lift the country's economic strains. As a result, the Egyptian stock index ended the year with a substantial 76.20% yearly increase. In details, investors started the first quarter of 2016 with improving confidence following the decision to lift the monthly cap on dollar transactions for individuals on the 8th of March. Moreover, on the 3rd of November, the Central Bank of Egypt free floated the Egyptian pound and raised interest rates by 3 percentage points in an attempt to draw foreign capital inflows back to the country, hence driving up inflation levels and imports' prices. The Egyptian pound depreciated by a yearly 56.70% to stand at EGP/$18 end of the year. In addition, the IMF approved a $12 billion loan under the Extended Fund Facility program on the 11th November, in an effort to tackle the economy's contraction. As such, Egypt has received $2.75 billion so far, which will go towards covering the country's fiscal deficit and restoring its foreign exchange reserves.

The Lebanese Bourse Mirrored the Positive Political Scene

As 2016 came to a close, the presidential election of General Michel Aoun and the cabinet formation have brought with them a surge in optimism in Lebanon that the economy and stocks have not seen in years. The BLOM Stock Index (BSI), tracking the activity of the Lebanese Bourse, recorded a 3.69% annual rise and had registered some of its highest levels during this year. Hence, the market capitalization rose by a yearly 4.33% to stand at $10.20B. Also, the total volume and value of stock traded, registering a 5- year high, increased from 55.22M shares worth $496.85M in 2015 to 108.25M shares worth $884.73M in 2016.

Monthly Changes in in the BLOM Stock Index



Source: BLOMINVEST Research Department

In details, the first half of 2016 kicked off as a continuation of the slow economic performance of 2015. This was reflected by the BSI registering a 1.69% downtick since the beginning of year to close at 1,149.79 points. On a monthly basis, following the positive performance of the last two months of 2015, the month of January revealed a 1.41% month-on-month (m-o-m) decline as no major political change was exhibited. Similarly, February showed no sign of improvement as the BSI displayed a mere monthly change.

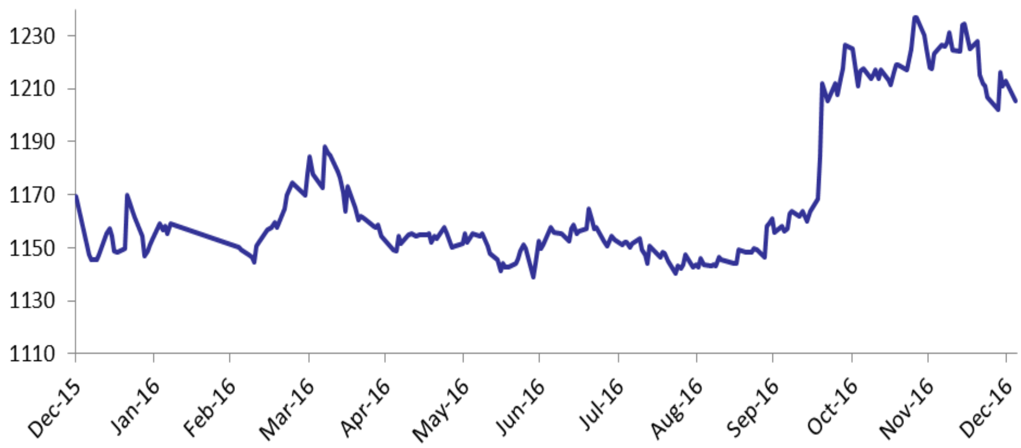
The month of March unveiled the main monthly positive growth of 2.74% in H1 as Lebanese banks revealed robust balance sheets, and BLOM and Byblos announced their dividends distribution to shareholders. However, this uprise was short-lived since the month of April registered a 2.54% downtick as clashes in Ain Al-Helweh camp, in Sidon, had their toll on the business environment.

However, the long awaited presidential elections that took place during the second half of the year managed to offset the first half's losses. The BSI recorded a 5.37% gain during H2 and hovered between a lower band of 1,139.05 points and a higher band of 1,236.64 points, its highest level in the last 5 years.

In fact, October witnessed the end of the presidential vacuum as Former Prime Minister Saad Hariri declared support for General Michel Aoun as President for the Republic. The political talks that took place over the month led to the substantial 6.02% increase, and the month was concluded by the election of the 12th Lebanese president.

During the last two months of the year, the Lebanese bourse lost its momentum. As a matter of fact, profit taking trades and several investors rebalancing their portfolios characterized the months of November and December. Moreover, the end of year festivities triggered, as usual, a slowdown in trading activity. This was translated by a 0.42% monthly slip to 1,212.73 points on December 30th.

Performance of the BLOM Stock Index



Source: BLOMINVEST Research Department

By the end of 2016, 28 stocks were listed on the Beirut Stock Exchange (BSE), compared to 29 stocks in the previous year. However, there were activities of listing and de-listing conducted by Lebanese commercial banks. The Beirut Stock Exchange decided to De-list the 4,000,000 Preferred Shares Class "A" of BLC from the official market of the stock exchange, and list 60,000,000 common shares as well as 750,000 new preferred "D" shares, thus taking note of the Bank's capital increase from LBP/154,000,000,000/ to LBP/214,750,000,000/. Moreover, the BSE also decided to accept the capital increase of Bank of Beirut to LBP 115,218,674,000 through the issuance of 4,000,000 new preferred class "K" shares.

On November 16, BLOM BANK announced that it has signed an agreement to acquire the assets and liabilities of HSBC Bank Middle East Limited, Lebanon subject to regulatory approval from Banque du Liban on the transaction which is expected to be completed during the first half of 2017. As of June 30th, 2016, HSBC Bank Middle East Limited had 3 branches in Lebanon and approximately USD 953 million in total assets.

In the banking sector, the best performing stocks on the Lebanese bourse in 2016 were BLOM GDRs, BLOM listed shares, and Audi listed shares. In details, BLOM GDRs and BLOM listed shares increased by 12.82% and 12.77% over the year to reach $11 and $10.6, respectively. BLOM Bank's net profits posted an 18.74% yearly increase to stand at $344.07M by the third quarter of 2016, and the bank recorded the highest return on common equity ratio of 17% and the lowest cost-to-income ratio of 35.3%. Audi common shares increased by a yearly 12.40% to $6.80, as net profits surged 15.18% year-on-year to $350.34M. Also, Bank Audi's Turkish subsidiary, ODEA Bank, revealed an increase in its net profits to $3.02M compared to a $3.18M loss during the same period in 2015.

As for the worst performers, BEMO listed shares, BLC Preferred shares class "B" and "C" recorded the largest losses through the year. BEMO lost 10.53% to stand $1.7, while BLC Preferred shares class "B" and "C" saw respective falls of 2.44% and 0.99% each to stand at $100.

In the real estate sector, despite substantial political improvements, Solidere shares registered declines in value. Solidere released its consolidated financial statements for the first 6 months of 2016, revealing an improvement in its bottom line, from a net loss of $28.71M by H1 2015 to a net profit of $72.10M over the same period this year. Also, ahead of the presidential elections, Solidere shares rallied to reach their peak levels this year on October 28. As such, heavy selling followed and led the stocks into a correction phase. Consequently, Solidere A and B shares respectively decreased by a yearly 6.15% and 5.15% to stand at $10.38 and $10.5.

As for the manufacturing sector, Ciments Blancs' Nominal shares and HOLCIM shares recorded the largest declines through the year. Ciments Blancs' nominal shares and HOLCIM shares plunged by 49.35% and 19.08% to reach $1.57 and $11.75, respectively. This drop can be attributed to HOLCIM's capital decrease from LBP 195,160,400,000 ($129.46M) to LBP 97,580,200,000 ($64.73M), where the nominal value of the share will drop to LBP 5,000 instead of LBP 10,000.

Despite the fact that the world had undergone a year full of drastic changes defined by the Syrian Refugees crisis, terrorist attacks, Brexit and the election of Donald Trump in the U.S, Lebanon's overall economy was only impacted by local political developments. As such, future investor sentiment will be directly correlated to the progress on the political front, government economic policy, and the security situation of the country and the region.

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