January 19h 2019

Contact Information

Research Analyst: Sara Hadchiti

sarah.hadchiti@blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

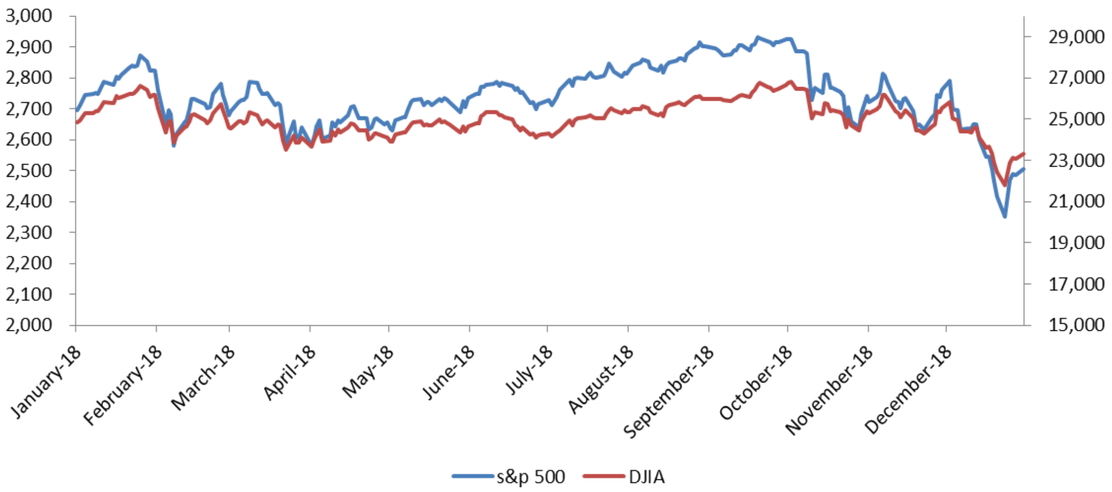
Research Department

Tel: +961 1 991 784

Following 2017, which saw strong gains in asset prices and record low volatility, 2018 was anything but calm. Although, global markets have started the first half of the year in rally due to strong corporate earnings and positive economic data, all major equity indices finished 2018 in the red and for most it was their worst annual performance since 2008. Many political and economic events mainly in the US have moved the markets.

US Markets' Performance

Performance of the S&P 500 and Dow Jones Industrial Index



Source: Bloomberg

In the US, the Dow dropped 5.63%, the Nasdaq Composite shed 3.9% and the S&P 500 fell 6.24% to reach 2,507 points by the of 2018. In fact, markets reflected investors' worries about increasing signs of global economic slowdown, the impact of shifts in US monetary policy and the US-China Trade War. It was exacerbated by the shutdown of the US Government later in the year.

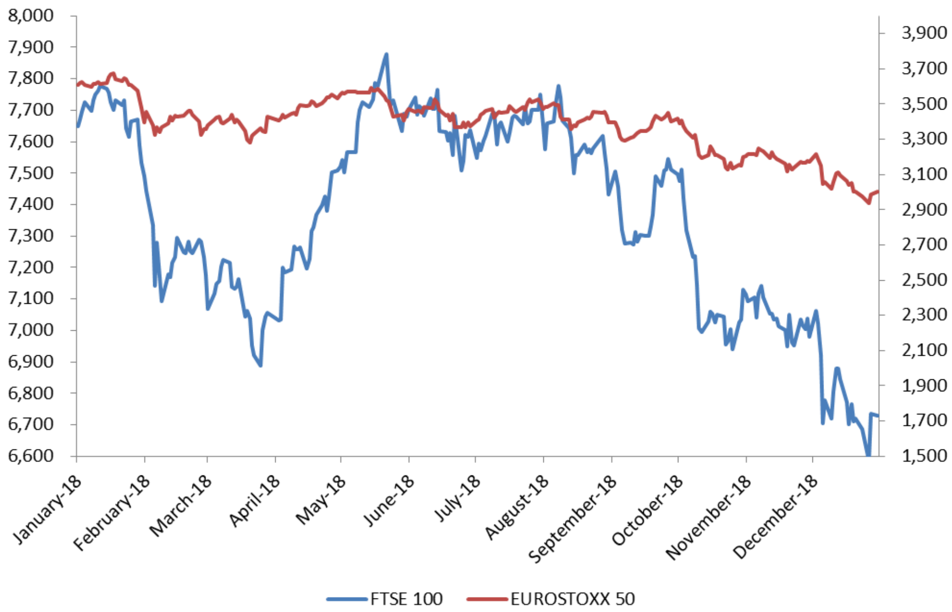
Starting 2018, the US President Donald Trump imposed three rounds of tariffs on Chinese goods, totaling more than $250bn in order to reduce the US Trade Deficit with China. The tariffs cover a wide range of industrial and consumer items. Beijing hit back with tariffs on $110bn of US goods, accusing the US of starting "the largest trade war in economic history".
After months of hostilities, a breakthrough of sorts came in December. Both countries agreed to halt new trade tariffs for 90 days to allow for talks. They imposed a deadline of early March 2019 to resolve their differences, or the tensions may rise again. While the trade war is supposed to resolve a macro economic problem, it negatively affected the equity markets during the year since investors feared that a rise in tariffs will cause higher costs for companies, lower earnings and therefore decreases in shares' prices.

Given the expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective over the medium term, the FED delivered the biggest annual tightening in more than a decade and marked four rate increases in 2018 and nine since it began normalizing rates in December 2015. The interest rate stood at 2.5% by the end of 2018. However, the fed's monetary policy was criticized by the US President and led to volatility in the equity market. In Fact, when interest rates are rising, both businesses and consumers will cut back on spending. This will lead to the fall in companies' earnings and drop in stocks' prices.

By the end of the year, a partial Government Shutdown in the US started leading to an important equity sell-off. The shutdown began at midnight on Dec. 22, 2018, and is still persisting marking the longest shutdown ever in the US history. The US President Donald Trump and leaders in Congress failed to come to agreement on providing funding for part of the government — especially with regard to border security. The disagreement came to a head when the president demanded the Congress to provide more than $5 billion in funding for the border wall that he has promised since campaigning for the presidency.

Europe Markets' Performance

Performance of the FTSE 100 and Eurostoxx 50 Index



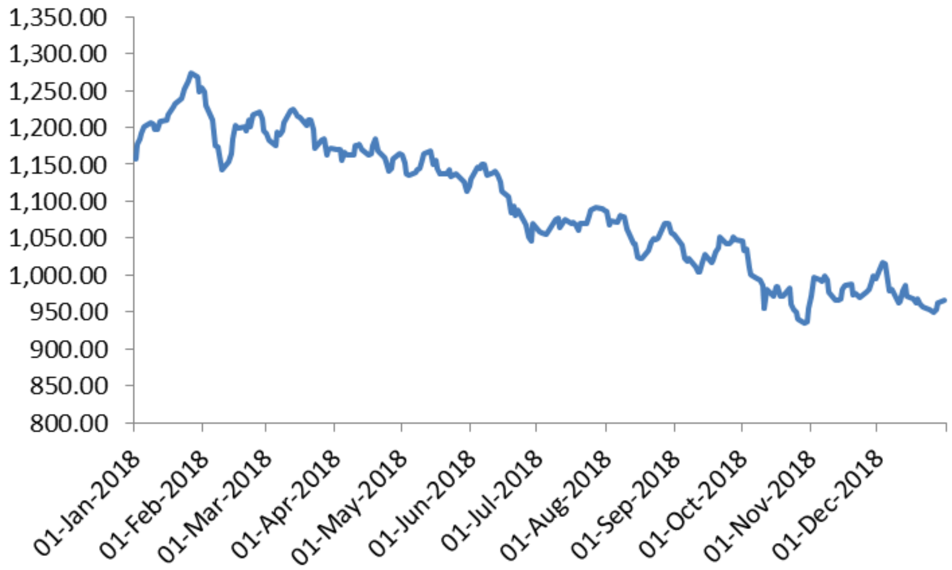
Source : BLOOMBERG

Europe had its own host of economic and geopolitical risks throughout 2018 which led to 15.91% yearly slump in Eurostoxx 50 Index. First, Rome and Brussels finally came to terms on a budget deficit, after intensive negotiations during 2018. The German economy contracted in Q3 for the first time in over three years as global trade disputes weighed on their export driven economy. Moreover, France was dealing with social unrest sparked from an attempt to increase gasoline taxes with seemingly deeper roots in the wealth gap between the upper and lower classes.
Despite the economic slowdown and rising geopolitical risks, the ECB announced the end of its EQE asset purchase program at its December 13th policy meeting.

In the UK, the FTSE 100, the index for the UK's 100 biggest stock market-listed companies, has fallen 12.48% to reach 6,728 points by the end of 2018. The market was driven by many events during the year. First, uncertainty about the UK's long-term relationship with the European Union (EU), its biggest trading partner, remains the main reason explaining market's volatility. In fact, during 2018, the Prime Minister Theresa May witnessed various obstacles to prepare the "EU Withdrawal Deal" before the upcoming deadline on 29 March 2019. Second, fears of US protectionism trade policy could make life difficult for the UK outside the EU. Moreover, FTSE 1OO is also affected by the performance of the pound. In fact, a strong pound is usually bad for the FTSE 100 – as many firms in the index of leading UK companies make much of their profits in foreign currencies.

Emerging Markets' Performance

Performance of the MSCI Emerging Market Index



Source : Reuters

Emerging Markets were hit the most by the US events during 2018. The MSCI Emerging Market index shrunk yearly by 16.64%. In addition to the negative impact of the US-China trade tensions, emerging markets were troubled by US monetary policies. The problem remained in a combination of a strong U.S. dollar and higher interest rates. In fact, governments and private companies in many countries, including Argentina, Indonesia and Turkey have benefited from low U.S. interest rates by borrowing in dollars and repaying debt with stronger local currencies. Higher interest rates and strong dollar make these debts more difficult to settle and can lead to defaults in payments.

As for Turkey, the Turkish lira deterioration has weighted on the "Borsa Istanbul 100 Index" which dropped yearly by 20.86%. In fact the Turkish lira was classified as one of the worst performing currencies for the year. In August 2018, it had lost around 44% of its value since the start of the year. Several factors have aligned to cause this clear depreciation of currency starting with the economic and political struggles.
First, the Trump Administration imposed increased Tariffs on Turkish steel imports and other commodities. Second, the President of Turkey interfered in monetary policy through opposing interest hikes, which frightened investors and further contributed to the currency crisis. However, the currency started to retrieve by the September after the Central Bank intervened by increasing the benchmark on interest rate to 24%, a hike of 625 basis points from its previous rate of 17.75%.

Commodities' Performance

GOLD Prices

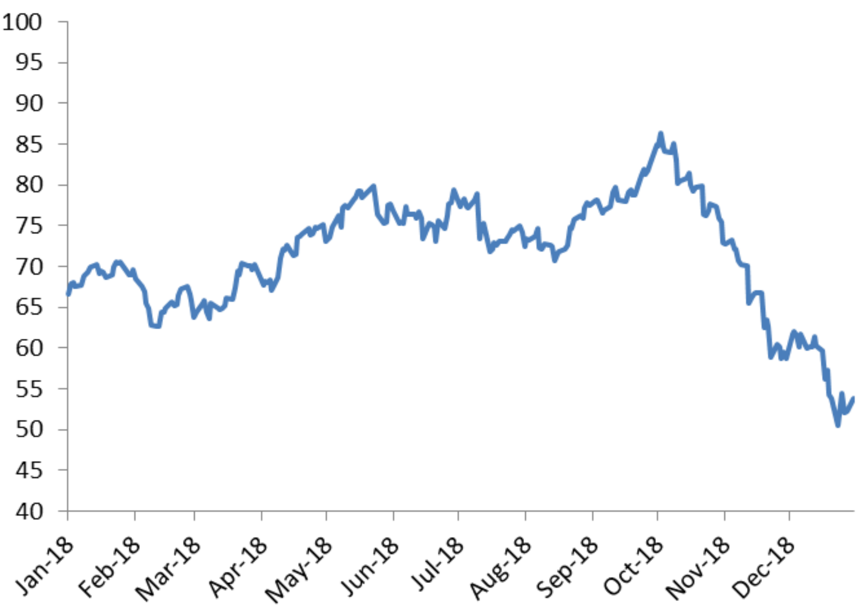
Source: Reuters

The Price of Gold ended 2018 relatively unchanged comparing to the previous year. The average gold price stood at $1,267.89 per ounce in 2018 compared to $1,257.7 per ounce during 2017. However, the price was also subject to fluctuations. In mid-august the price slumped about 4.42%. In fact, the greenback's movements, geopolitical tensions and interest hikes were the key drivers for the gold price during 2018.

By Q3 of the year, the rally of the dollar made gold more expensive to buy for holders of other currencies, and weighed therefore on demand. In addition, the FED's policy to raise interest rates pushed investors to shift capital flows from safe-haven assets in favor of stocks.

The price started to increase again in November. Investors returned to traditional safe haven-asset amid concerns about political issues, including the US-China trade war and US-Saudi tensions.

Oil Prices



Source: BLOOMBERG

Oil prices experienced important fluctuations during the year. The average price of 2018 was $71.69 per barrel up by 28.34% compared to the same period last year. In fact, by the end of September, the crude oil price hit its highest levels since November 2014 to reach $80 per barrel mainly due to supply losses from Venezuela and U.S. sanctions on Iran's energy industry, which came into force on November and were designed to cut crude exports from the third-biggest producer in the Organization of the Petroleum Exporting Countries (OPEC). However, starting October, oil prices began to decrease amid escalating concerns about an increase in global supply and a slowdown in economic growth to settle at $53.8 per barrel by the end of 2018 comparing to $66.87 per barrel by the end of 2017. The International Monetary Fund (IMF) forecasts oil prices at $68.78 per barrel in 2019 according to the World Economic Outlook report released on October 2018.

MENA region Markets' Performance

In the MENA region, Qatar's Stock Market was the best performer during 2018, up by 20.80%, followed by Tunisia (16.12%) and Saudi Arabia (8.24%).

The Qatari index was able to recover all the losses caused by diplomatic freeze of the nation by key allies and neighbors including the United Arab Emirates and Saudi Arabia, which began in June 2017. In fact, Qatar has taken new steps to encourage investors. Different companies allowed increased foreign ownership while the country has made permanent residency an option for some non-nationals adding the commercial banks' robust performance and earnings.

Although the Tunisia's Stock market is one of the smallest stocks in the MENA region and despite the difficult country's economic situation, Tunisia's main benchmark registered one of the top performances in the Arab World. In fact, Tunisia's Central Bank stepped to counter inflation running at 25-year high, by raising interest rate 100 basis points by June 2018 , which helped lenders preserve their profit margins, while exporters benefited from a plunging dinar.

2018 has been a volatile year for the Saudi stock market. During the first quarter of the year the stock market increased mainly due to the Crude oil's rally and the Kingdom's ambitious plan known as Vision 2030 spearheaded by Crown Prince Mohammed bin Salman. The plan aims to increase foreign investment, boost tourism and grow the private sector. However, it is worth mentioning that in October, overseas investors offloaded more than $1B in Saudi shares following Jamal Khashoggi's Murder. The sell-off was one of the biggest since Saudi Arabia opened up its markets to direct foreign investment in 2015.

In contrast, Dubai's Financial Market was the worst performer, plummeting by 24.93%, followed by Lebanon (14.90%) and Egypt (13.19%).

Dubai's stock market has lost its fascination for equity investors. The Financial market ended the year with its worst performance since the global financial crisis a decade ago, due to weak tourism and real estate sectors. The real estate witnessed a drop in sales and prices amid an oversupply and weak demand. However, the UAE market is expecting to better perform in 2019 as government has taken some measures and the international trade fair Expo 2020 is likely to lift the economy.

Egypt's stock market started the first half of the year with a high performance; however, it ended the year in red. This can be linked to the market sell off in September after an Egyptian criminal court ordered the arrest of President Hosni Mubarak's two sons on charges of stock market manipulation.

Lebanon Market's Performance

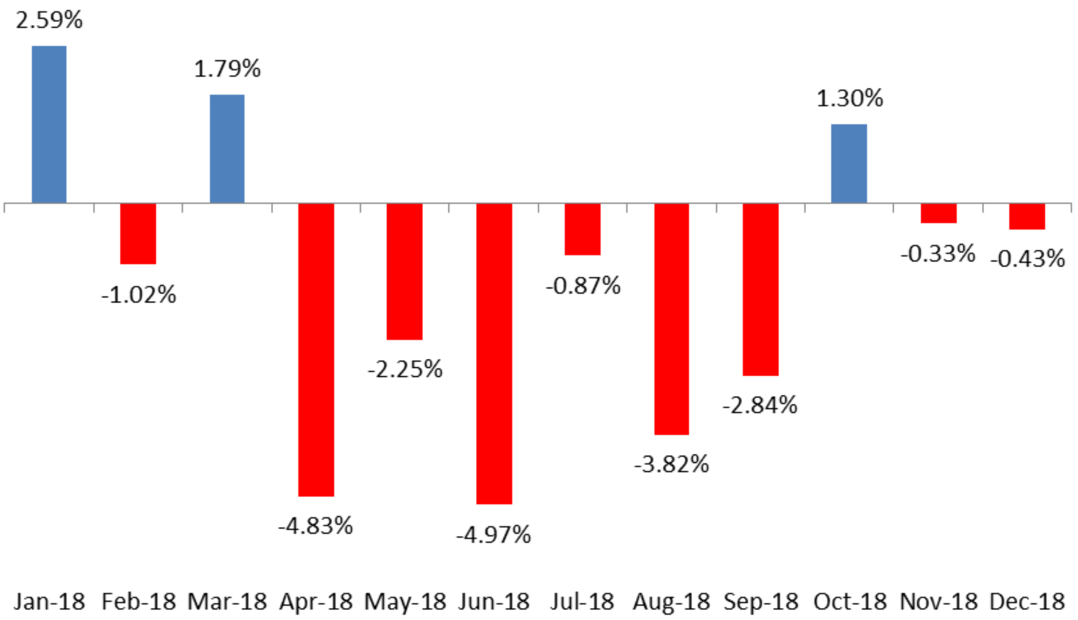
The Lebanese economy has been struggling during 2018 over a stagnating economy, concerns over the currency, growing geopolitical tensions in the region and most importantly the deadlock over the government formation. Moreover, the country suffers from important macroeconomic imbalances having the world's third highest debt-to-GDP ratio of about 150% and deficit of $4.08B[1] by November 2018 in its balance of Payments. In its December PMI report publication, BlomInvest Bank estimated Lebanon's 2018 real GDP growth to 1% from a previous forecast of 2%.

The economic slowdown, higher public debt and continuous political turmoil continued to exacerbate investors' loss of confidence and weighted on the Beirut Stock Market's performance making it one of the top losers for the year. In fact, Blom Stock Index (BSI) dropped by a yearly 14.90% to end the year at 976.75 compared to 1147.75 at the end of 2017.

[1] Worth mentioning that if we adopt the IMF's way of computing the Balance of Payments (BOP) by not including the Eurobonds held by BDL into its foreign assets, the BOP deficit becomes $6.57B by November 2018.

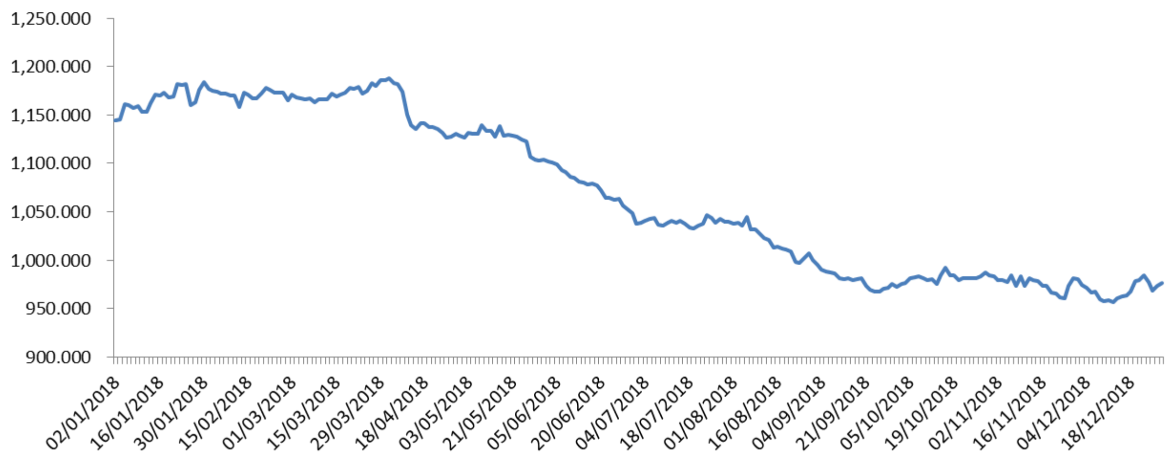
Although the total outstanding shares increased yearly by 3.10% to settle at 1.75B shares, the market capitalization declined from $10.46B end of 2017 to $9.52B end of 2018. Moreover, the total traded volume and value slumped from 62.11M shares worth $536.85M by the end of 2017 to 54.75M shares worth $376.41M by the end of 2018.

Monthly Changes in the Blom Stock Index



Source : BLOMINVEST

Performance of the BLOM Stock Index



Source : BLOMINVEST

The BSI performance was positive during the first quarter of the year, despite the downtick of 1.02% recorded in February; it mainly recovered from the slump it reached after the Prime Minister Saad Hariri's resignation on November 2017.

On 04/04/2018, the index reached its highest level (1,187.70 points) boosted by the CEDRE conference in which Lebanon raised over $11 billion in grants and soft loans to finance investment and infrastructure projects. However, in the same month, the index registered one of the highest slumps of the year (4.83%) mainly due to investors' worries about the election of new parliament in May and fears of US retaliation against Syria after the former accused the latter of using chemical weapons on Douma.

Despite the election of the new parliament held on May, the index continued its downward trend till September. In fact, since May Lebanon has entered an ongoing struggle over a government formation and delaying therefore all the reforms and projects of the CEDRE conference.

June marked the highest monthly index decline (4.97%) since investors were expecting a quick cabinet formation after the parliamentary elections and before the end of Ramadan in June.

On 27/08/2018, the BSI fell to 998.14 points a first recording below the index's initial capitalization of 1,000.00 since November 2005. In October, news on potential formation of a new government caused a positive monthly performance for the index. However, political issues have blocked again the procedure and led to monthly decrease in the Index in November and December.

By the end of 2018, the number of stocks listed reached 28 compared to 29 the previous year. In fact, there were activities of listing and de-listing conducted by the Lebanese commercial banks. On the BSE, 73.80M BLOM Listed Shares and 263,510 BLC Preferred "E" shares were listed, while 20M Preferred Shares Class "2011" of BLOM and 1.50M Audi Preferred "G" were de-listed.

In the banking sector, all the banking shares ended the year in the red expect for BEMO Listed shares which recorded a yearly rise by 20.77% to stand at $1.57. Meanwhile, Byblos Preferred 08 shares and Byblos Preferred 09 shares registered the largest losses with respective yearly declines of 31.10% and 30.69% to $70 each. Moreover, Blom GDR shares shrunk by 26.69% to settle at $9.31.

In the real sector, Solidere A and B shares plunged by 12.61% and 9.90% to stand at $7 and $7.19, respectively.

In the industrial sector, HOLCIM and Ciment Blancs Nominal shares rose from $14.46 and $2.25 by the end of 2017 to $15.5 and $2.55 by the end of 2018.

The rate of decline registered by the BSI in 2018 is the highest in more than 5 years. In addition to the political instability, the economic deterioration in major sectors has exacerbated the situation.

A government formation has become a must in order to benefit from the CEDRE conference loans, implement structural reform program and lower the public debt-to-GDP ratio. Moreover, investors' confidence should be restored to attract much needed capital inflows. Lebanon can also seek the opportunity to be involved in reconstruction projects in Syria when they kick-off.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department Bab Idriss,

Weygand Str. POBOX 11-1540

Riad El Soloh Beirut 1107 2080

Lebanon

Sara Hadchiti, Research Analyst

sarah.hadchiti@blominvestbank.com

+961 1 991 784

Marwan Mikhael, Head of Research

marwan.mikhael@blominvestbank.com

+961 1 991 782

research@blominvestbank.com