Equities' and Commodities' Performance around the world in H1 2019

BLOMINVEST BANK

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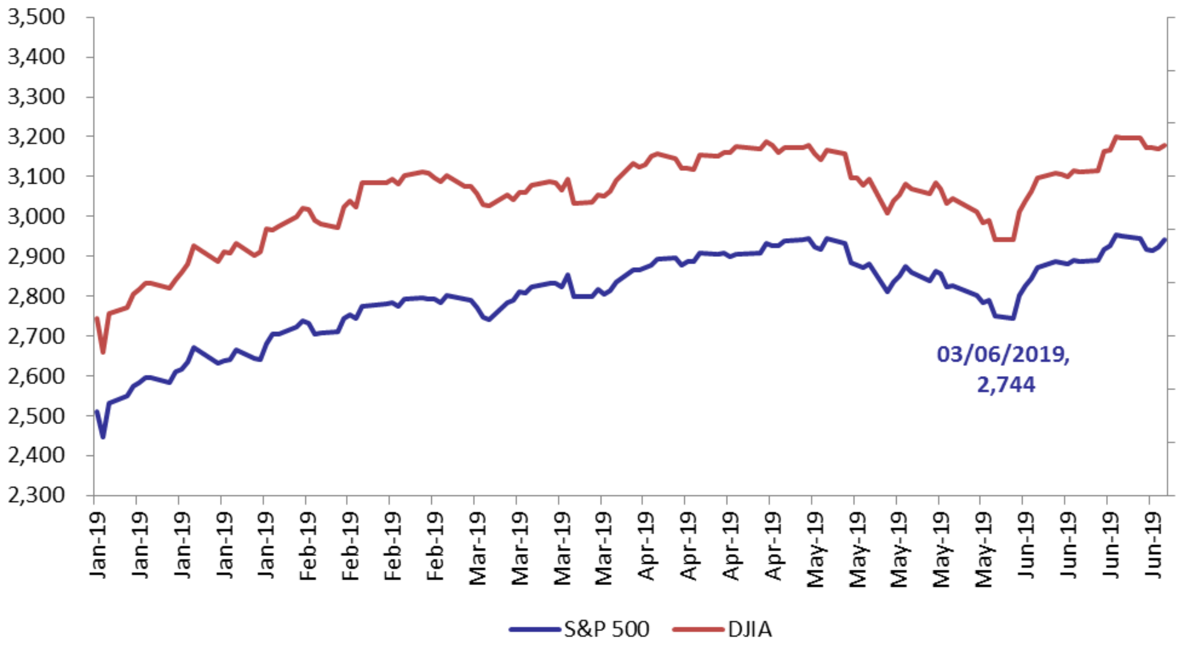
2018 recorded strong losses in asset prices and high volatility, with all major equity indices ending the year in the red and for most it was their worst annual performance since 2008. However, Equity markets rebounded in the first half of 2019. Many political and economic events mainly in the US have moved the markets. Concerns over the China-US trade dispute eased at some point during the first quarter and major central banks grew more accommodative.

US Markets' Performance

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



Source: Bloomberg

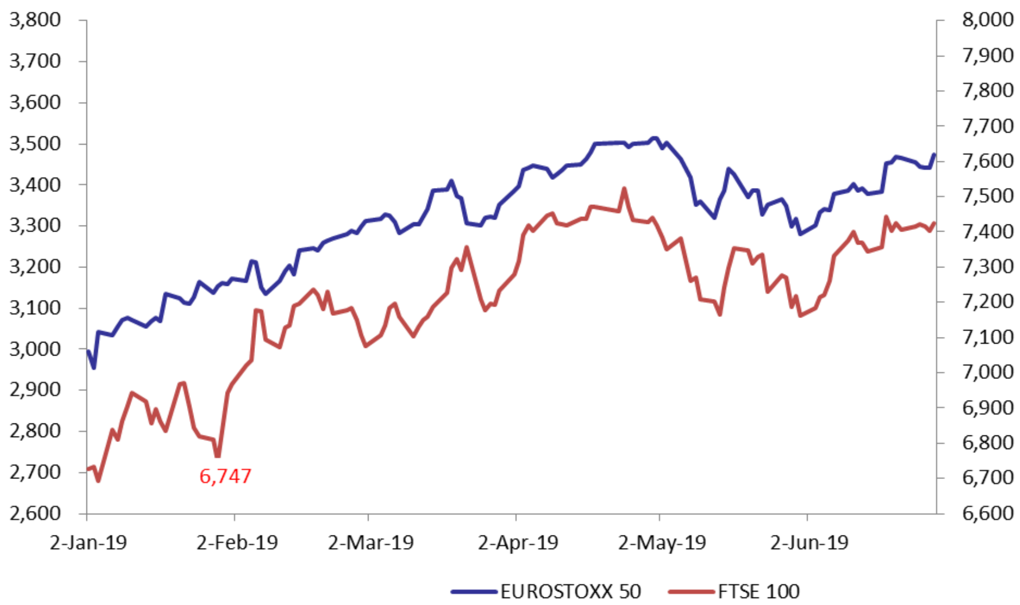
In the US, although the stock markets have taken investors on a roller coaster ride during H1 2019, the S&P 500 and the Dow rose by 18.10% and 14.53% to reach 2,964 points and 26,717 points, respectively by the end of H1 2019. The S&P 500 had its best June since 1955 and the Dow posted its biggest June percentage gain since 1938.

2019 started with the longest partial US government shutdown which led to an important equity sell-off. However, the Federal Reserve (Fed) confirmed it would adjust planned interest rate hikes to compensate for deteriorating economic situation. By the end of March, US equities' progress had dropped to a far more cautious pace as investors balanced the Fed's accommodative tone with the broader implications for economic growth. As the quarter ended, the Fed lowered its projections for US growth and inflation, and reduced its expectations for interest rates hikes. As a result, the Treasury yield curve to invert - a signal historically associated with a pre-recessionary environment. On June 3, 2019 major U.S. stock indexes closed mostly lower as a sell-off in some big technology and internet companies weighed down on the market. In details, Bank of America Merrill Lynch lowered its earnings estimates for companies in the S&P 500, citing trade tensions. Analysts have also warned that uncertainty over trade deals will crimp business confidence and keep companies from investing internationally.

However, major U.S. stock indexes gained ground at the close of first half of the year, in advance of a meeting on trade between U.S. President Donald Trump and Chinese President Xi Jinping during a Group of 20 summit for talks that could help resolve a year long trade war, as signs of its dampening effect on global growth have become more prevalent.

Europe Markets' Performance

Performance of the FTSE 100 and Eurostoxx 50 Index



Source : BLOOMBERG

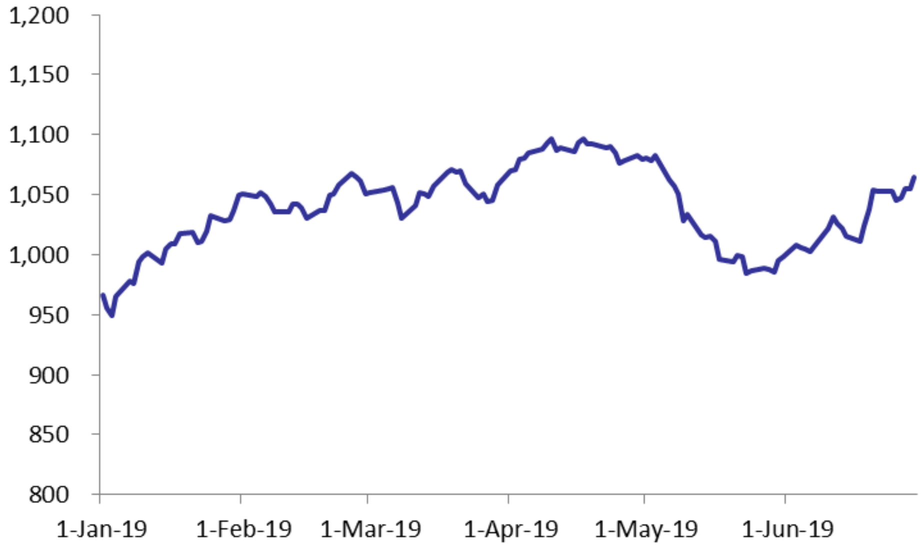
Eurozone equities enjoyed strong gains in the first half of 2019, rebounding from weakness at the end of 2018. In details, Eurostoxx 50 Index grew by 16.53% to stand at 3,498 points by the end of June 2019.

The Eurozone outlook has deteriorated significantly since the end of 2018. The slowdown started in mid-2018, mainly in the manufacturing sector which contracted at the end of the year and is still stagnating in of 2019. However; Stock markets were supported by central banks policy. The European Central Bank (ECB) said rates would remain at current levels at least until the end of the year although it had previously said rates would stay on hold until the end of summer 2019. In addition, the ECB decided to offer a third round of cheap funding to banks in the form of targeted long-term refinancing operations (TLTROs). These loans were introduced at the height of the sovereign debt crisis when banks struggled to hold on to deposits and raise wholesale finance. More recently, the banks that have continued to use the facility are those that are less stable than the majority, with many in Italy.

In the UK, despite the uncertainties over the Brexit deal, the FTSE 100, (the index for the UK's 100 biggest stock market-listed companies), rose by 11.43% to reach 7,497 in H1 2019. In fact, companies profit was mixed. Technology sector for example recorded strong relative performance, as did a number of large consumer goods companies, which are perceived to have dependable growth prospects. However, many of the market's domestically-focused sectors underperformed amid renewed Brexit and political uncertainty. During its March meeting, the Bank of England's Monetary Policy Committee voted unanimously to maintain UK interest rates at 0.75%, stating that the UK economic outlook will continue to depend significantly on the nature and timing of EU withdrawal. On May 27, Theresa May resigned as leader of the Conservative Party and therefore as UK prime minister, taking a caretaker role as of 7 June. The Conservative Party began the process of selecting its new leader, who will also become prime minister. Despite a further extension of the Article 50 deadline to 31 October, there remains considerable uncertainty as to the path a new leader might wish to take. Meanwhile, the negative impact of the original 31 March Article 50 deadline on the UK manufacturing sector became clearer. While GDP grew by 0.5% in Q1, in line with expectations, the Office for National Statistics (ONS) revealed that the economy shrank by 0.4% in April (by more than forecast) and primarily due to a sharp fall in car production related to Brexit uncertainty.

Emerging Markets' Performance

Performance of the MSCI Emerging Market Index



Source : BLOOMBERG

Despite the market volatility, the MSCI emerging market index managed to increase by 10.18% to stand at 1,064 pints by June 2019. US-China trade tensions were rekindled in May as talks unexpectedly broke down, and both sides implemented new tariffs. However, hopes for a resumption of talks post the G20 summit in June, and rising expectations that the US Fed will cut interest rates, proved supportive later in the period. The MSCI Emerging Markets Index gained but underperformed the MSCI World.

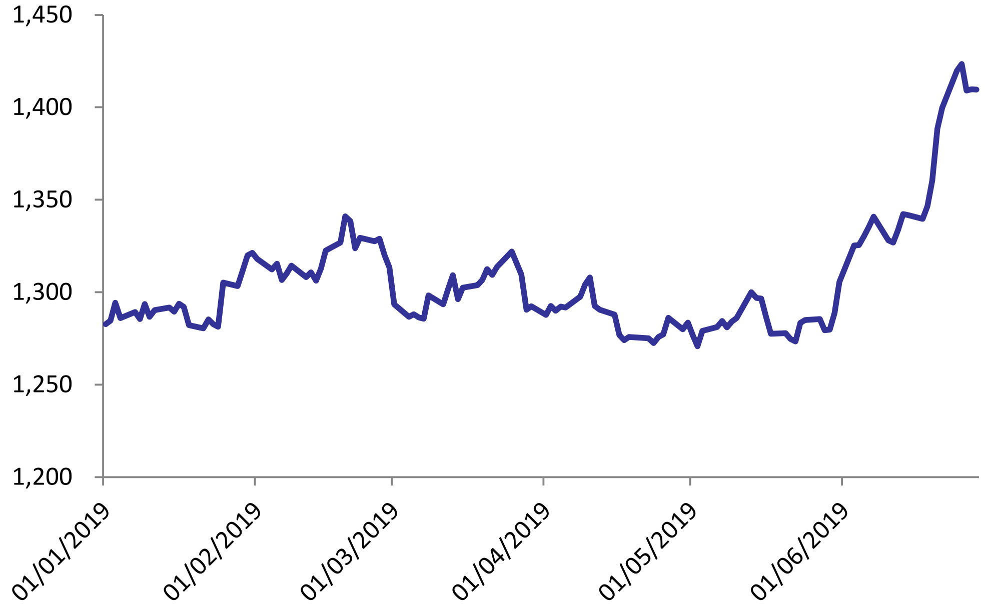
Those markets most sensitive to changes in global liquidity performed well, in particular Argentina where political developments also boosted sentiment. In advance of presidential elections in October, the leading candidates appeared to adopt a more centrist stance.

South Africa, Indonesia and Turkey were among the best performers. In South Africa, the re-election of the African National Congress Party was positive, despite a decrease in the size of its majority. Russia also performed better than the average country in the index, due in part to a strong rally from state-controlled oil company Gazprom. Meanwhile, the Russian central bank cut interest rates by 25 basis points (bps) to 7.25% in June, and signaled potential for further easing this year.

However, China and South Korea finished in negative territory, impacted by global trade uncertainty. After trade talks broke down, the US increased tariffs on $200 billion of Chinese goods imports from 10% to 25% and blacklisted Chinese telecoms company Huawei. It also threatened to levy tariffs on the remaining $300 billion of goods imported from China. China retaliated by raising tariffs on $60 billion of US goods imports from an existing 5-10% range to a maximum of 25%. However, following the G20 Osaka summit, which took place at the end of June; further tariff hikes have been paused. The US has also eased some export controls against Huawei.

Commodities' Performance

GOLD Prices

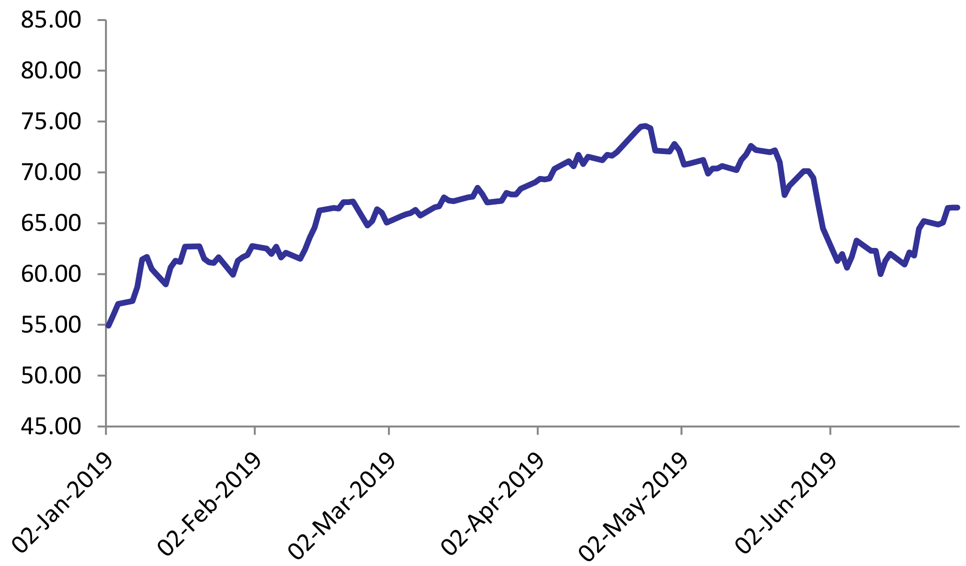


Source : BLOOMBERG

The price of gold surged by 9.91% and stood at $1,409.55 per ounce in the first half of the year. In fact, a softer US dollar, geopolitical issues , slowdown in global in economic growth and an additional boost from the Federal Reserve hinting at an interest rate cut were the main catalysts behind the precious metal's ability to attract investors interest. The precious metal hit its lowest point a month into the second quarter on May 2, when gold traded at US$1,270.40. However, the latter hit its highest closing price of the quarter on June 25, when it traded at US$1,423 per ounce as the tensions between the US and Iran intensified.

In details, towards the end of the second quarter, the United States not only maintained ongoing tensions with China, but also created them with Iran and Mexico, as US President Donald Trump sanctions on both countries. Moreover, the FED has made a major dovish pivot, going from a steady rate-raising regime, to pausing those hikes, to likely cutting them in the July meeting. Interest rate reductions lead to higher Gold Price, since they diminish gold's holding cost and lower the competition from Treasuries.

Oil Prices



Source: Reuters

Oil prices experienced important fluctuations during the first half of the year. The price was $66.55 per barrel by the end of June 2019 up by 23.70% since the beginning of the year. In particular, WTI crude oil prices closed the first quarter materially higher, increasing from $53.80 per barrel to $68.39 per barrel. This represented the largest quarterly increase in crude prices since the second quarter of 2009. The gains were driven by tighter crude supplies and relatively positive signs for the global economy (particularly in the United States and China). OPEC aided the crude oil markets with production cuts that have pushed the group's supply to a four-year low with Saudi Arabia and Venezuela and Libya. In April 2019, crude oil prices continued their rally and reached the highest level of $74.57 per barrel on April 24. In fact, despite the prediction that the Iranian crude oil production and exports will decrease, crude oil supply from OPEC and other countries managed to offset the lack of Iranian oil barrels. The production increased in the United Arab Emirates, Kuwait, Saudi Arabia and Russia. However, on June 5 oil prices hit one of their lowest level to reach $60.63 per barrel after the U.S. government reported an unexpected surge in the nation's crude stockpiles. By the end of June, crude oil prices volatility was driven by the increasing tensions between the US and Iran, including the attacks on six oil tankers near the Strait of Hormuz. In details, Iran downed an unmanned US surveillance drone, and oil prices soared on the possibility that a war which could potentially halt the 18 million b/d of oil exports was imminent. However, the announcement that Presidents Trump and Xi are to confer about the trade dispute at the G20 summit supported the oil market.

MENA region Markets' Performance

In the MENA region, Kuwait's Stock Market was the best performer during H1 2019, up by 21.07%, followed by Saudi Arabia (13.12%) . Meanwhile Lebanon's Stock Market was one of the worst performers.

The rally in Kuwait's stocks could be attributed to the positive sentiment surrounding MSCI's decision regarding the reclassification of Kuwait's market. On June 25th, MSCI announced its decision to reclassify Kuwait as an emerging market, subject to availability of omnibus account structures and same National Investor Number (NIN) cross trades for international investors before the end of November 2019. Once the final approval is received from MSCI, Kuwaiti stocks are expected to enter MSCI's emerging market indices on May 2020. MSCI's announcement to upgrade Kuwait to emerging market status (depending on satisfying certain conditions) is a significant step towards the progression of Kuwait's equity markets. The move is expected to bring sizeable passive and active fund inflows into the country. In the past couple of years, Kuwait's real estate sector witnessed a slowdown in deals as prices fell amidst low oil prices and weak confidence among investors. However, after a phase of slowdown and consolidation, the real estate activity is picking up in Kuwait. This has translated into higher profitability of real estate companies, thus reversing the declining trend witnessed in the past three quarters. Moreover, the implementation of the Kuwait Government's development plan, which has been essential for the acceleration of infrastructure projects and supporting the delivery of Vision 2035, will drive private sector credit growth.

Despite all the geopolitical tensions in the region, the Saudi Arabia market managed to reserve its place as one of the best performer in the MENA region. On 18 March 2019, the first phase of Saudi Stock Exchange's inclusion into the FTSE Russell and S&P Dow Jones Indices (S&P DJI) started. In fact, capital market reforms and enhancements implemented over the past two years have paved the way for index inclusion and reflect Tadawul's continued commitment to enhance the effectiveness of the Saudi capital market, foster an attractive investment environment for local and international investors and align its regulatory frameworks with international best practices. Investment inflows resulting from index inclusion will further enhance liquidity and trading in the Saudi market, which is already among the most liquid of emerging markets worldwide, and further diversify opportunities for issuers and investors. The Saudi Equity market is determined to become an active player in global capital markets as a source of capital and an investment destination, building on its current role as the regional hub leading capital market development in the GCC and the wider MENA region.
Worth mentioning that on May 06, Saudi Arabia's stock market slumped to hit a near eight month low, as oil prices weighed on its financial and petrochemical shares. In details, President Donald Trump said he would sharply hike tariffs on Chinese goods, risking the concerns of trade talks between the world's two biggest economies

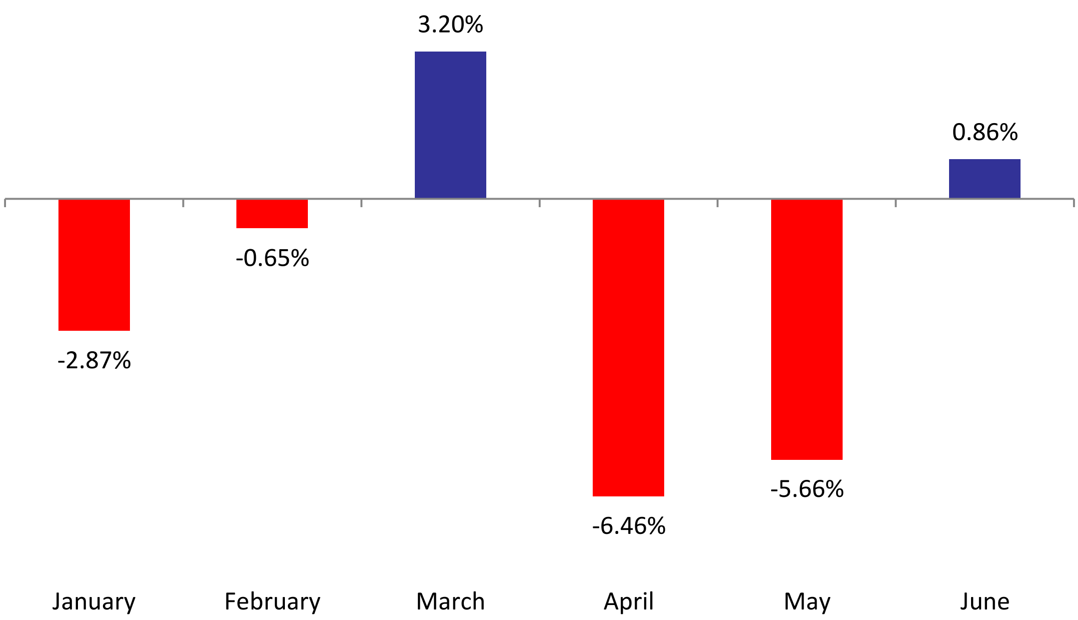
Lebanon Market's Performance

The Lebanese economy has been struggling during H1 2019 over a stagnating real sector, concerns over the external sector and growing geopolitical tensions in the region. The pressure has been rising to handle the large twin deficits and the very high level of public debt. The Lebanese private sector continued to suffer from low local and regional demand. The BLOM Purchasing Managers' Index (PMI), a measure of the activity of private sector, stalled at an average of 46.5 in H1 2019, compared to 46.6 and 47.1 in H1 2018 and 2017, respectively. In figures, Lebanon's gross public debt reached $85.13B by the end of 2018, adding an annual 7.6% on the back of the rise in both local and foreign currency debt. In turn, Lebanon's fiscal deficit expanded from 3.75B by December 2018 to 6.25B (10.87% of GDP) by December 2018. Moreover, Lebanon's Balance Of Payments (BOP) registered a deficit of $5.19B by May 2019, reversing the $430M surplus recorded by May 2018.

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 H1 2019. In fact, Blom Stock Index (BSI) slumped by 11.37% since the start of the year to settle at 865.66 points by the end of June 2019.

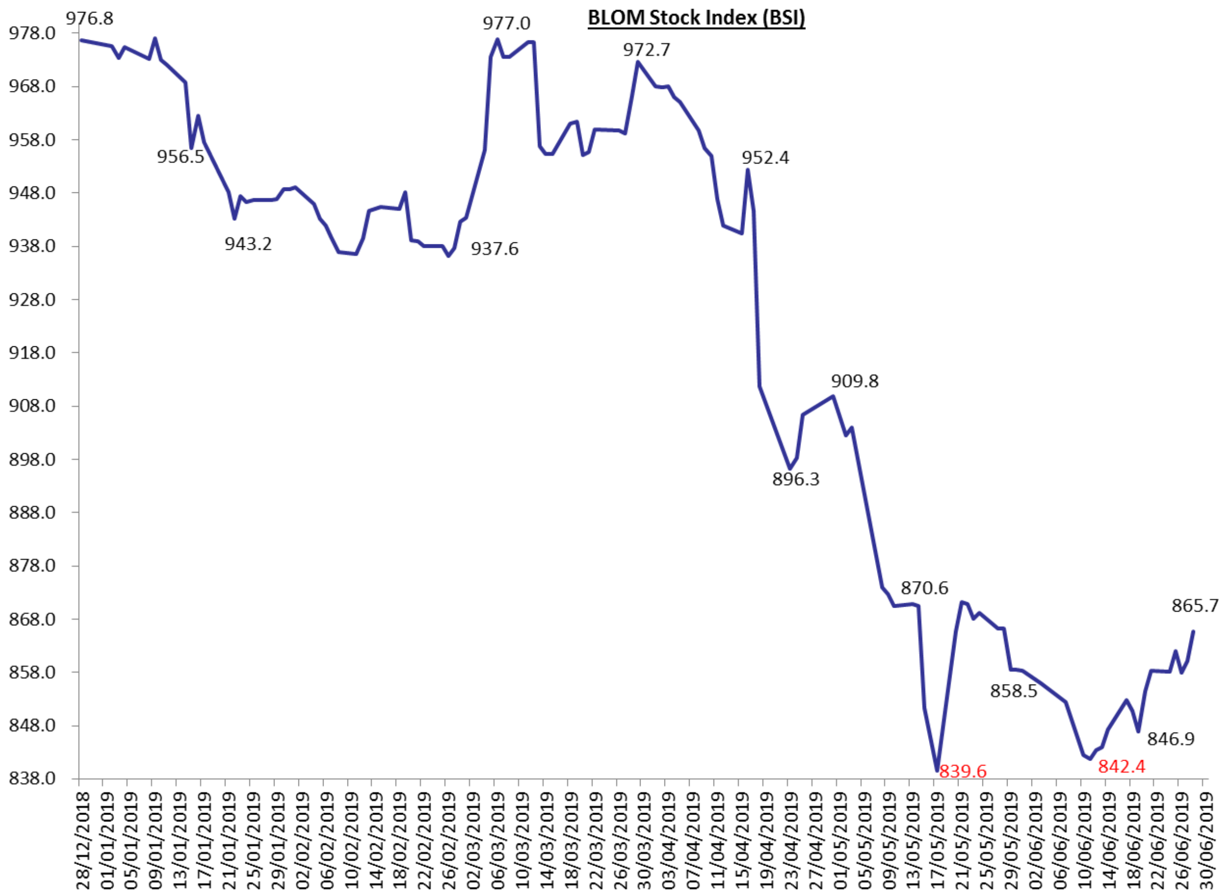
Activity on the BSE has been sluggish in H1 2018. The market capitalization declined from $9.52B by the end of 2018 to $8.20B end of H1 2019. Moreover, the total traded volume and value slumped from 23.25M shares worth $168.67M in H1 2018 to 18.63M shares worth $103.05M in H1 2019.

Monthly Changes in the Blom Stock Index



Source : BLOMINVEST

Performance of the BLOM Stock Index



Source : BLOMINVEST

The BSI performance was negative during the first quarter of the year, despite the uptick of 3.20% recorded in March. In January, the downward trend on the Beirut Stock Exchange was persisting as the political deadlock around the government's formation continued. Moreover, on January 22, Moody's Investors Service downgraded Lebanon's credit rating to Caa1, reflecting a higher risk that the government may implement a debt rescheduling plan. In February, the performance of the Lebanese bourse witnessed a correction to the large drops it incurred during the past year and investors were waiting for the actions of the promising new government. March marked the highest monthly index incline (3.20%) as the government started serious talks about 2019 state budget. The new budget seeks to lower Lebanon's fiscal deficit to GDP from an estimated 11% in 2018 to 8% in 2019 and unlock $11 billion in soft loans and grants pledged by the international community at CEDRE conference. During April and May, the index negative performance was mainly driven by the long awaited final draft budget which was endorsed on May 2017 after 19 sessions of discussion. However, cuts to benefits and pensions for state workers and the military led to protests and strikes. Moreover, during the week starting May 06th 2019, Lebanon witnessed an open strike by the employees of Banque du Liban (BDL) who feared budget cuts will jeopardize their wages and benefits. The strike disrupted some operations with (and through) the central bank and also triggered a suspension of trading activity on the

Beirut Stock exchange (BSE) on May 06 & 07, 2019. On 17/05/2019, the index reached its lowest level (839.6 points) in H1 2019.

Worth mentioning that the fluctuation in the prices of the stocks in the real estate sector became a key factor affecting the whole index in H1 2019. In fact, the real estate sector accounted for 18.95% and 17.67% of the total traded value and volume respectively in H1 2019. As such, Solidere A and B shares declined by 4.43% and 6.26%, since year start to $6.69 and $6.74, respectively.

Solidere Stock Price Performance

Source : BLOMINVEST

Moreover, the industrial sector and the retail sector showed a mixed performance. Holcim shares dropped by 12.90% to $13.5 while Ciments Blanc shares added 4.31% to $2.66. Meanwhile, Rymco shares remained unchanged during H1 2019 to stand at $3.28.

In the banking sector, most of the shares dropped, with Audi Listed Shares and Audi GDR shares being the worst performers. Audi Listed Shares decreased by 18.37% to $4, Audi GDR shares went down by 17.86% to $4. Moreover, Blom GDR shares also retreated by 17.29% to $7.7.

Only Byblos Preferred 09 shares closed the first half in the green rising by 2.86% to $72.

Investors have been hesitant to invest in the Lebanese stock market during H1 2019 amid current political discussions related to the pending budget approval. As a result, the BSI's performance in the second half of the year will be highly dependent on conclusive action and decisions on the draft budget and the series of serious reforms.

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