

Quarterly report
Q2-2022

Investment Objective

The principal investment objective of the fund is long-term capital appreciation through achieving the highest possible risk-adjusted returns.

Investment Universe

- The fund invests mainly in securities of companies listed on The Egyptian Stock Exchange
- The fund can also invest in treasury bills, treasury bonds, corporate bonds, securitization bonds and time deposits.

Subscription/Redemption

- The fund offers daily subscription to investors
- The fund offers weekly redemption to investors
- The valuation day for the fund is the last business day of every week
- Minimum initial investment is 5 ICs

Fund Details

Type of Scheme	Open Ended
Inception date	April-2008
IC price	EGP 258.84
Dividends Since Inception	EGP 13.50
ISIN	65122941

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa
Assistant Fund Manager	Mostafa Amer
Managing since	July-2013

Contact Details

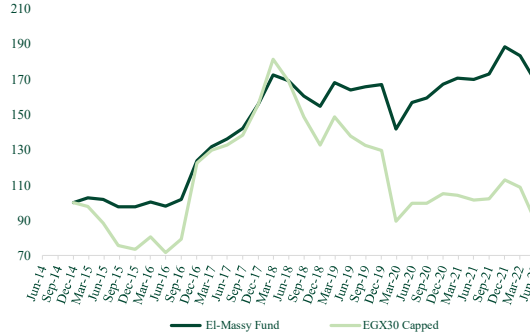
Egyptian Agricultural Bank	
Telephone	+202-27942471
Fax	+202-27948193
Website	https://www.abe.com.eg/

Portfolio

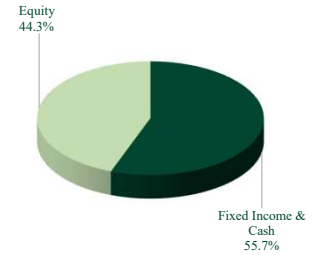
Performance Figures

Date	Return
Q2-2022	-7.8%
YTD	-10.3%
2021	12.7%
5-YTD	24.2%
Since Inception	187.4%

Relative Performance



Asset Allocation



Market Outlook

Global Equity Markets

Global economies started to recover from the impact of COVID-19 pandemic in 2021; however, towards the last quarter of the year the global supply chain crisis started to emerge leading to a disruption in recovery in addition to strong inflationary pressure. Moreover, with the beginning of the Russian Ukrainian war and the increase in geopolitical risk we saw a spike in commodity prices that were already elevated.

As a result, Central Banks worldwide started to tighten their monetary policies, and are willing to sacrifice growth in order to bring down inflation. Therefore, we are seeing a risk averse mode across most global equity markets whether in developed or emerging countries with MSCI World index being down 21.2% in the first six months of 2022.

Stock Exchange	YTD Performance
S&P 500	-20.60%
Nasdaq	-29.50%
MSCI World	-21.20%
MSCI Emerging Markets	-18.80%

We note several remarks regarding the current conditions:

- The impact of rising interest rates and high oil prices will probably lead to slowdown in economic growth that will lead to contraction in corporate profits.
- Inflation was supply driven at the end of 2021 but it expanded into broad inflation across 2022 with the Russian Ukrainian war. Therefore, central banks are expected to keep more tightening in order to restore price stability, which raises the risk of global recession.
- The key catalysts for markets is how quickly the Fed will start easing once inflation starts to drop. Stocks will start to recover when markets concludes that inflation is peaking.
- Despite of the arguments that markets are oversold, we believe that there will be no sustainable rally until the Fed reverse its tightening policy.

Commodities Outlook

The global surge in commodity prices that started late 2020 was driven by increasing demand with economies re-opening, while supply was limited mainly on the back of capacity constraints due to shut down in mining production during the pandemic and underinvestment in the sector in general since 2015. This is mainly due to that ESG movement led to hike in capital cost for fossil fuel industry thus limiting investments to expand capacity. As a result, we are currently on a status whereby the world is not ready to depend on renewable energy while the fossil fuel industry didn't invest in expanding its capacity for years.

We expect with the current central banks tightening monetary policy that global economic growth will slow down, which will lead to weakening demand on commodities; however, this comes at a period whereby China's economy is re-opening thus we don't expect strong demand weakening. Therefore, we believe that commodity prices will weaken but will remain partially elevated in relative terms.

Egyptian Market Outlook

Egyptian equity valuations are at a historical low with the market trading at P/(22e) of 4.7x compared to its 5-year average P/E of 8.8x implying 46.5% discount.

Company	P/E (2022e)	5- Year Average
CIB	4.9x	11.0x
Credit Agricole	3.8x	6.1x
EFG Hermes	7.3x	10.3x
Telecom Egypt	3.7x	5.6x
Eastern Company	4.6x	8.6x
El Sewedy Cables	4.2x	5.9x
Abu Qir Fertilizers	2.9x	9.2x
EK Holding (EGP)	4.7x	10.6x
MOPCO	3.7x	9.0x
AMOC	4.7x	13.6x

We believe that foreign investors' appetite is muted despite of the historic cheapness of the market due to current uncertainty towards the value of the EGP, and waiting for the outcome of the current discussions between Egypt and the IMF, in addition to global turbulences across equity markets.

We note that earnings momentum among listed companies in Egypt remains bullish despite of the global macro outlook on the back of the large weight of banks and commodity based stocks in the market's main index (EGX30). We note two remarks regarding the current market status:

- The EGP has depreciated by 16.5% in 2022, and this is the first time the stock market doesn't react positively given that the bulk of the market earnings are USD denominated.
- The highly stressed valuations is triggering a series of acquisition or acquisition attempts trying to capture an investment opportunity at a pricing that will never exist in normal market conditions.

Therefore, we believe that from an investment perspective, the market is extremely cheap and oversold, yet with a lack of strong buying appetite we might stay as is for a while, especially that global equity markets are not performing well in light of global fear from inflation and possible recession.

Fixed Income Market Commentary

- Egypt's headline inflation rate accelerated to 13.5% in May 2022, from 13.1% in April.
- Moody's affirms Egypt's B2 rating, changes outlook to negative from stable.
- Egypt's parliament approved the state budget for FY22/23, with expenditure rising by 15%.
- The Central Bank of Egypt's Net International Reserves registered USD 35.5 Bn as of May 2022 compared to USD 37.1 Bn as of April 2022.
- Egypt's unemployment rate dropped to 7.2% in 1Q22, down from 7.4% in the previous quarter.
- The Central Bank of Egypt raised benchmark deposit and lending rates and the CBE's main operation rate by 200bps to 11.25%, 12.25% and 11.75%, respectively.
- The quarter closed at:
 - 3Yrs: 14.69%
 - 5Yrs: 14.25%
 - 7Yrs: 14.63%
 - 10Yrs: 14.68%