

Quarterly report Q1 2021

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 weekly liquidity to investors
- The valuation day for the fund is the last business day of every week
- Minimum initial investment is 10 ICs

Fund Details

Type of Scheme	Open Ended
Inception date	May-1997
IC price	EGP 244.7
Dividends Since Inception	EGP 232.2
Bloomberg Ticker	EFGULBI
ISIN	65077567

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa

Contact Details

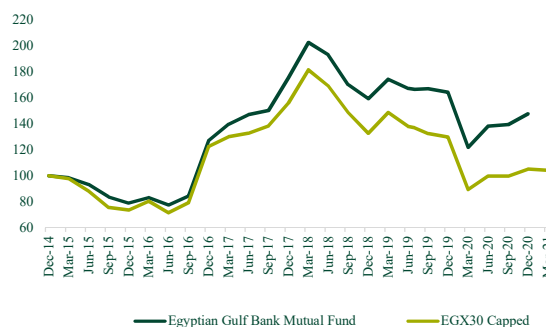
Egyptian Gulf Bank	
Telephone	19342
Fax	+202-37616848
Website	https://eg-bank.com/

Portfolio

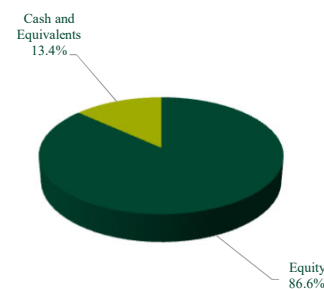
Performance Figures

Date	Return
Q1 2021	1.7%
YTD	1.7%
2020	-10.0%
5-YTD	80.4%
Since Inception	468.8%

Relative Performance



Asset Allocation



Market Outlook

Market Commentary & Strategy

The market main index EGX30 declined by 2.6% in 1Q2021 underperforming MSCI EM index that increased by 1.9% during the same period. We note that Egypt started the year positively with EGX30 increasing 6.3% in the first couple of months in 2021, yet all gains were erased and turned into negative YTD performance following an 8.3% decline in March. The market's positive performance in the first two months was coupled by decent inflows from foreign and Arab institutions with a total buying position of EGP6.8 billion and a net buying position of EGP670 million. Arab institutions continued their purchasing policy in March with a net buying position of EGP93 million implying a YTD net buying position of EGP400 million, while foreign institutions turned into net sellers by EGP371 million implying a net selling position of EGP9 million in 1Q2021.

We note that March witnessed general outflows from emerging markets with MSCI EM index ending the month down 1.7%, yet Egypt was hit more severely due to three main reasons: The Egyptian market is among the lowest markets in terms of liquidity among Emerging markets thus being vulnerable to more volatile swings amid outflows.

- 1) Some lack of buying appetite among local and foreign investors on concerns over the outcome of the water dam dispute between Egypt and Sudan from one side and Ethiopia on the other side.
- 2) The market correction led to the triggering of several margin calls among speculative stocks thus hitting retail investors severely.

Future Outlook

We believe that global economies will recover gradually during 2021, and that it will be a sort of transitional year until sufficient quantities of the vaccines are produced and accessible to large percentage of the world thus being able to return to normal life in 2022. However, we have a positive outlook for equity markets due to several reasons:

- 1) Better global economic conditions on vaccination along with better trade relations between the USA and China will improve investment climate and support inflow of foreign investments into emerging markets.
- 2) The extension of global monetary stimulus to support manufacturing activities in Europe and Asia, should drive demand for commodities and could stabilize oil prices above USD65 per barrel.
- 3) The CBE decision to cut interest rates by 10.5% since the beginning of the easing cycle in February 2018 will improve the capabilities of the economy and enhance growth prospects post COVID era.
- 4) We expect earnings to recover in 2021 given the shutdowns that occurred in 2020. The relative recovery in earnings will be a key driver for market performance. The market is currently trading at P/E (21x) of 7.4x with a chance for further leg recovery rerating to P/E of 10.0x implying 35% upside potential.

Economy

Egypt's GDP increased by 2.0% in 2Q20/21 up from 0.7% in 1Q20/21 implying GDP growth of 1.4% in 1H20/21 compared to pre-pandemic growth of 5.6% in 1H19/20. The government expects GDP growth to continue its gradual pick-up in 2H20/21 rising to 2.8% in 3Q and 5.3% in 4Q implying an expected GDP growth of 2.7% in FY20/21. The declining growth rates are a factor of pressure on the tourism sector in addition to subdued local private consumption.

Egypt's current account deficit doubled from USD1.38 billion in 1Q19/20 to USD2.79 billion in 1Q20/21. The surge in current account deficit was mainly on the back of diminishing net tourism proceeds to USD0.3 billion only compared to USD3.24 billion in 1Q19/20 prior to the outbreak of COVID-19. The drop in tourism was partially offset by increase in private transfers from Egyptians working abroad by 19.9% from USD6.63 billion to USD7.95 billion.

Egypt sold USD3.75 billion in bonds over three tranches with maturities of 5, 10, and 40 years. The breakdown of the issuance is as follows: USD750 million in 5-year bonds at 3.875%, USD1.5 billion in 10-year bonds at 5.875%, and USD1.5 billion in 40-year notes at 7.5%.

The CBE maintained overnight deposit and lending rates stable at 8.25% and 9.25% respectively for the third consecutive meeting yet post 10.5% cuts over the period February 2018 to November 2020. The CBE stated that most of Egypt's indicators are gradually recovering to pre-pandemic levels, while international oil prices and other commodities have surged to post pandemic highs with increasing level of uncertainty regarding their future price trajectories. As a result, the MPC decided to keep policy rate unchanged.

The government announced its draft budget for FY21/22 targeting a primary surplus of 1.5% and overall deficit of 6.6% of GDP. The budget is assuming 16.4% increase in total revenue, while wages are budgeted to grow by 11.4%. The budget is yet to be approved by the parliament and signed by the president.

The CBE announced that Egypt's foreign reserves inched upwards to USD40.3 billion in March up from USD40.2 billion in February. We note that this occurred despite of around USD140 million drop in CBE's gold holdings due to declining international gold prices. Finally, we highlight that the CBE opted not to include the proceeds of the international bond sale of USD3.75 billion into the official reserves but rather included it into Tier II reserves that jumped by USD3.1 billion to USD8.7 billion.

Egypt's annual headline inflation remained unchanged at 4.5% in March, in line with the inflation rate in February remaining close to a more than a decade low.