

Quarterly report
Q1-2024

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 664.27
Dividends Since Inception	EGP 242.40
Bloomberg Ticker	EFGULBI
ISIN	65077567

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa

Contact Details

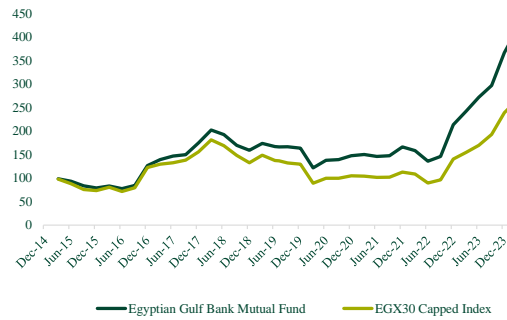
Egyptian Gulf Bank	
Telephone	19342
Fax	+202-37616848
Website	https://eq-bank.com/

Portfolio

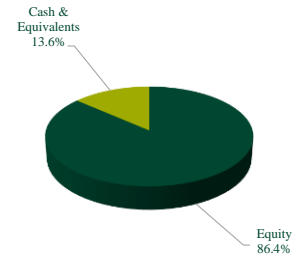
Performance Figures

Date	Return
Q1-2024	13.3%
YTD	13.3%
2023	71.8%
2022	28.3%
5-YTD	138.9%
Since Inception	1475.0%

Relative Performance



Asset Allocation



Market Outlook

Global Equity Markets

We believe that US inflation will remain the key focus point that will determine the FED forward policy and subsequently the performance of capital markets in the coming months. We note that the FED hiked benchmark rates by 5.25% during the period March 2022 to July 2023, and we expect that the lagging effect of monetary tightening will result in lower economic growth and, which will lead to lower inflation levels. We note that inflation already dropped from a peak of 9.1% in June 2022 to 3.2% as of February 2024. The FED is expecting that inflation will settle at around 2.6% by the end of 2024; however, market consensus are leaning towards 2.0% inflation.

The FED is projecting to make 3 rate cuts during 2024 signaling a shift in policy from being focused solely on fighting inflation to a balanced approach that focus on price stability along with economic growth prospects.

We note two risks to the current disinflation mode: 1) Higher economic growth on the back of strong consumer spending, and 2) Higher oil prices on the back of geopolitical tensions in the Middle East along with Russia and Ukraine.

Global markets started 2024 with a positive note with S&P500 up 10.2% in the first quarter of the year while MSCI World index is up 8.5%. We note that there are some signs that the bull run has become extended setting the stage for a correction/consolidation phase. This should prove temporary given that equity valuations are not that stretched especially if the disinflation momentum persists because this will enable more rate cuts to be implemented than what is currently discounted.

Emerging Markets

Investors were too bullish on their assumptions for Chinese growth in 2023 given it was the first year to re-open post COVID-19 pandemic; however, the recovery was hindered by weak global export environment and weak domestic consumption. Both consumer and business confidence remain depressed as evident in weak demand for credit and capital investment. Therefore, the government needs to increase its spending significantly in order to achieve significant growth rates; however, so far the government is reluctant to revive the economy leading to a confidence breakdown with the investment community.

As a result, MSCI China decreased by 2.2% during the first quarter of 2024, thus hindering the performance of Emerging markets in general given that China represents around 30% of MSCI EM index. As a result, MSCI EM increased by 1.9% only in 1Q24 significantly underperforming global markets.

We note that the Chinese stocks have usually been trading at a discount to global markets; however, the valuation gap has currently widened to a near record gap as the market is expecting an extremely negative outcome that we believe is unlikely to materialize. Therefore, we believe that the market mispricing will correct over time; however, this will only happen when the government starts to implement a significant macro easing policy.

Egyptian Market

Egypt signed an investment deal with the UAE selling a land plot in the North Coast for a total consideration of USD24 billion in addition to debt conversion of USD11 billion into local currency. The size of the liquidity allowed the CBE to float the EGP on March 6th and close the variance between the official FX rate and the parallel market rate. Moreover, Egypt reached an agreement with the IMF, EU, and the World Bank for total funding packages of around USD20 billion over the next 3 years.

However, the continuous weakness in EGP over the past couple of years led to a spike in inflation reaching 35.7% at the end of February. Therefore, the CBE hiked rates by additional 6% implying total hikes of 19% since the CBE started its tightening policy in March 2022.

As a result, the market started the year on a positive note increasing 34.1% since the beginning of the year till a peak on March 11th. However, the market started to lose momentum afterwards dropping 19.5% in the remaining period of March thus ending the quarter up 8.0%. We view this as normal slowdown given the tight interest rate environment leading to higher borrowing cost and discount rates, while foreign investors will not deploy capital into equities until the market proves its stability.

We highlight that the market upward trend in the past couple of years was mainly on the back of local investors trading the market as a hedge against further EGP devaluation. Therefore, foreign flows are essential for the market to keep its upward leg in light of the tight domestic liquidity.