

## MENA Thematic

EFG Hermes Research Team

### Q&A at the EFG Hermes 2017 One on One Conference

#### Macro Strategy Report

www

At the One on One 2017 opening session we polled 510 international fund managers and institutional investors from 260 institutions, and 147 leading companies from MENA & Frontier on the outlook for the markets.

#### MENA to outperform EM in 2017, Egypt the market of choice

According to most participants (60%) MENA markets will outperform EM in 2017, but political instability (43% of votes) continues to be seen as the main source of risk for MENA markets, while potential for higher trade barriers (42% of votes) is seen as the key risk to global markets in 2017. Within MENA and frontier, most voters (46%) said Egypt will be the top performing market in USD terms in 2017, and most (41%) see the USD-EGP ending the year at 15-17. Within MENA sectors, most investors (32%) continue to see healthcare as the one with greatest performance potential in 2017. Finally, on Pakistan, 54% of voters said they expect the market to be lower in USD terms one year from now, in line with trends seen in previous EM upgrades.

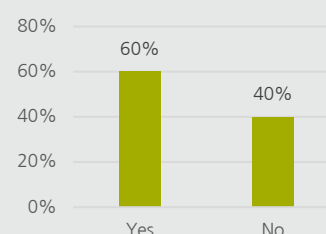
#### Consensus sees oil at USD50-60, MENA earnings to rise 0-10%

Most participants expected oil to end 2017 at USD50-60/bbl. The audience expected MENA earnings to rise by 0-10% in 2017, which is in line with consensus. We see low single digit earnings growth for 2017e, as we believe that Saudi Arabia earnings are unlikely to grow by 10% in aggregate for the year.

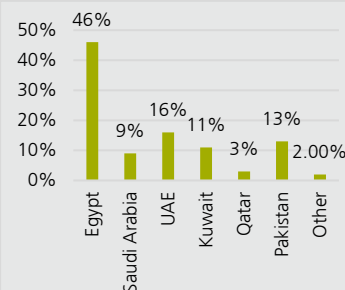
#### USD pegs are here to stay, Fed will hike rates in 2017

Despite consensus view on lower oil for longer, most participants (61%) believed that GCC pegs will not change by 2020. 56% of participants expect that the Fed will hike rates twice this year, but there was no view on whether or not EM funds will see net outflows in 2017 with votes split equally among the Yes and No answers. However, 77% of participants said that passively managed funds will continue to grow at the expense of active AUMs. Moreover, despite big frontier markets (such as Pakistan, Qatar, and UAE) leaving the frontier index in recent years, 68% of the participants believed that frontier will continue to be a standalone offering, which is good news for Kuwait which most participants (55%) believe will remain a frontier market by 2020. Finally, very few participants expect Saudi Arabia to join MSCI EM by 2018, with most voters (34%) saying 2019 will be the year when Saudi Arabia gets upgraded. Moreover, most participants (39%) said that Aramco's IPO value will be USD1-1.5tn.

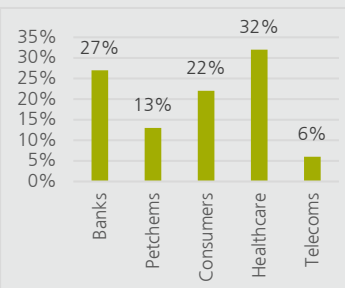
#### EM stocks outperformed MENA in 2016. Will MENA outperform EM in 2017?



#### Which market will perform best in MENA and FM in 2017 (USD terms)?



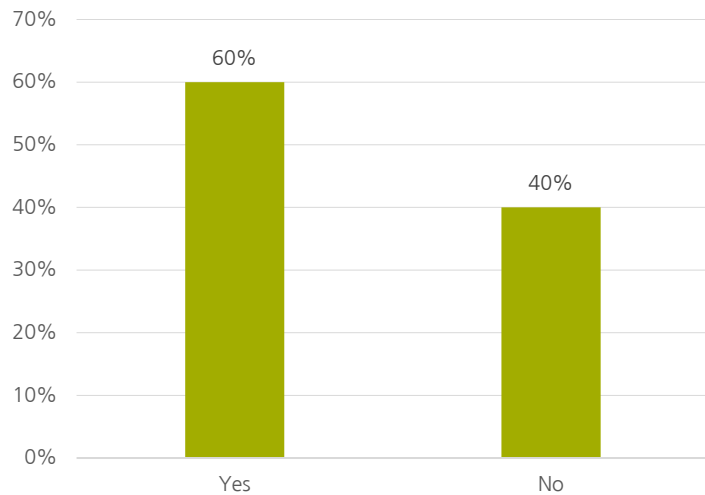
#### Which sector will see the best stock performance in MENA in 2017?



Source: EFG Hermes One on One conference

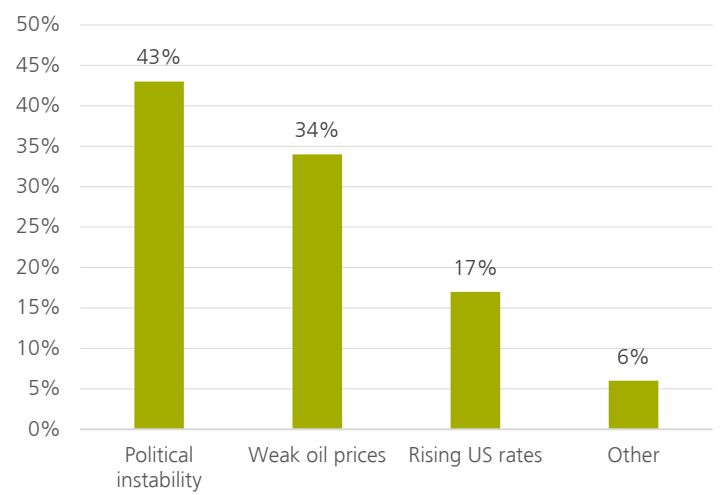
## Questions and Answers at the 2017 One on One Conference

**Figure 1: EM stocks outperformed MENA in 2016. Will MENA outperform EM in 2017?**



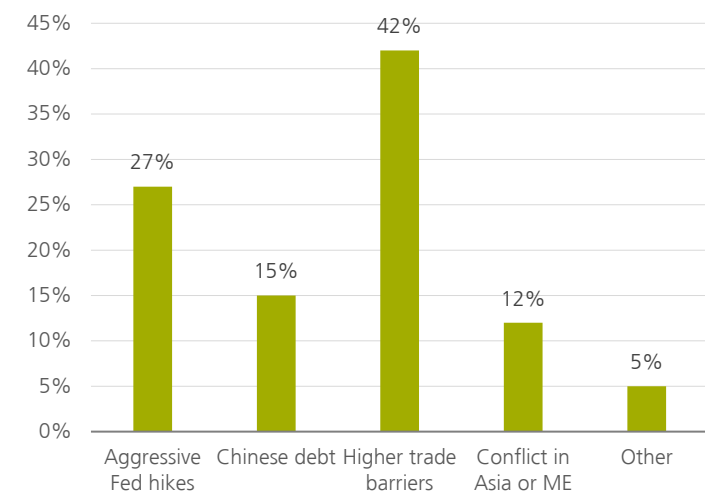
Source: EFG Hermes One on One Conference 2017

**Figure 2: What is the greatest risk to MENA equities for the next three years?**



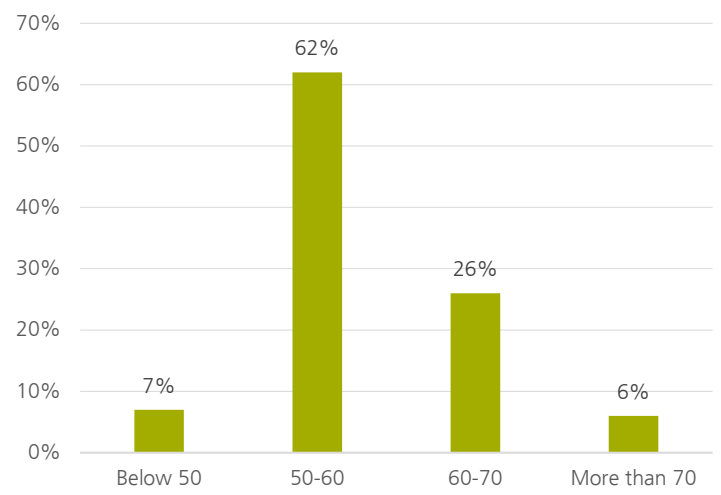
Source: EFG Hermes One on One Conference 2017

**Figure 3: What is the biggest risk for global markets in 2017?**



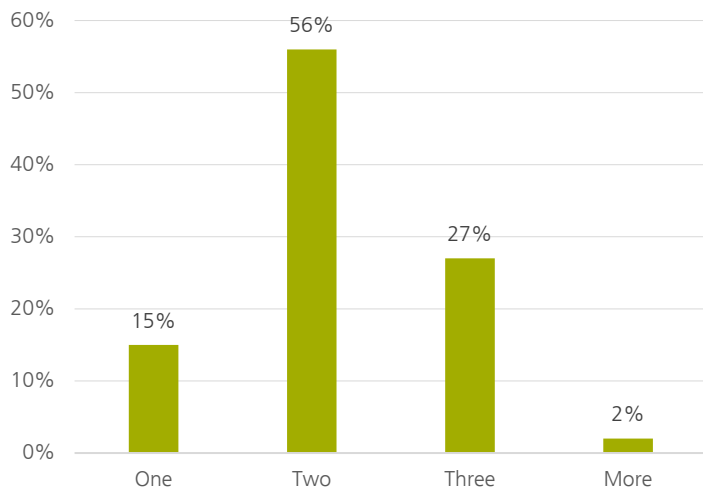
Source: EFG Hermes One on One Conference 2017

**Figure 4: Where will Brent Crude oil end 2017?**



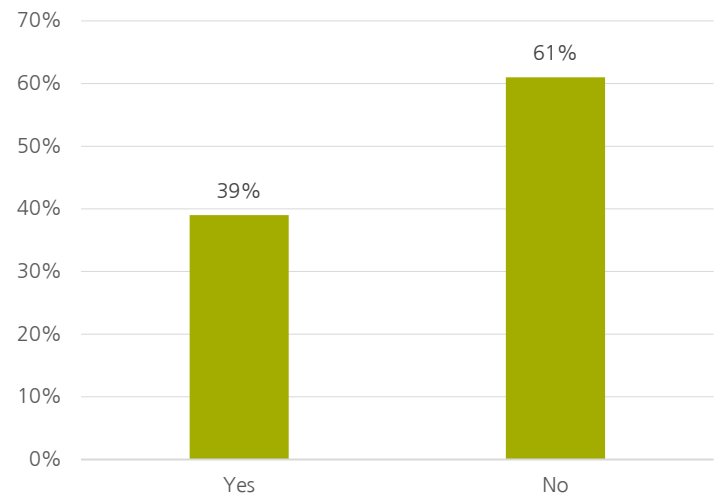
Source: EFG Hermes One on One Conference 2017

**Figure 5: How many Fed rate hikes will we see in 2017?**



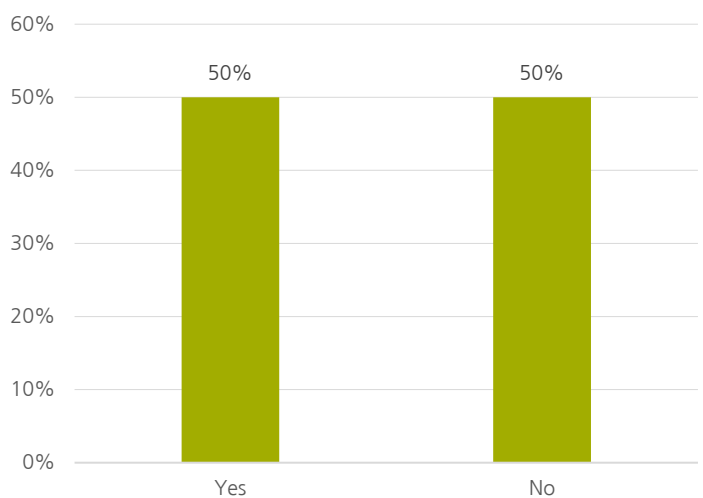
Source: EFG Hermes One on One Conference 2017

**Figure 6: Will we see any change in GCC currency pegs by 2020?**



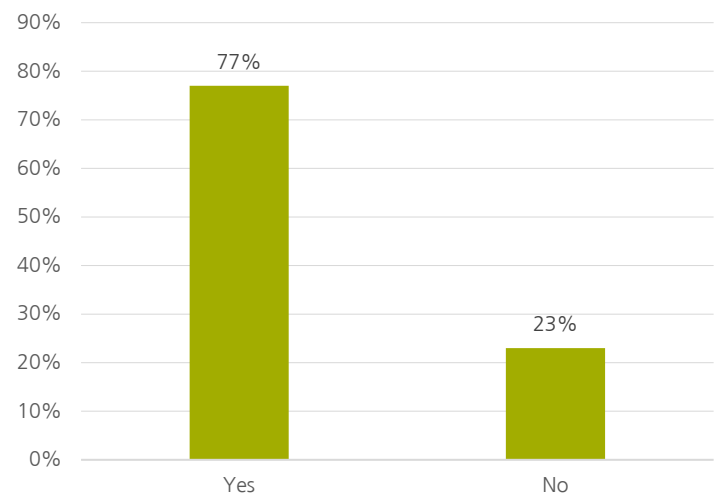
Source: EFG Hermes One on One Conference 2017

**Figure 7: Will EM funds see net outflows in 2017?**



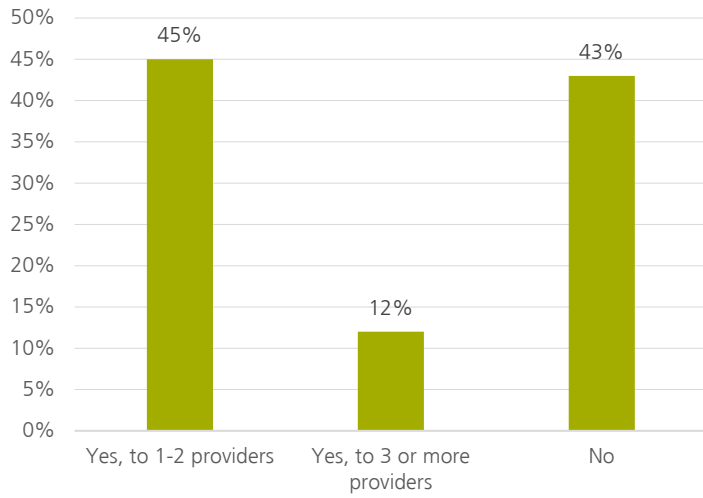
Source: EFG Hermes One on One Conference 2017

**Figure 8: Will passively-managed funds continue to grow at the expense of active AUM?**



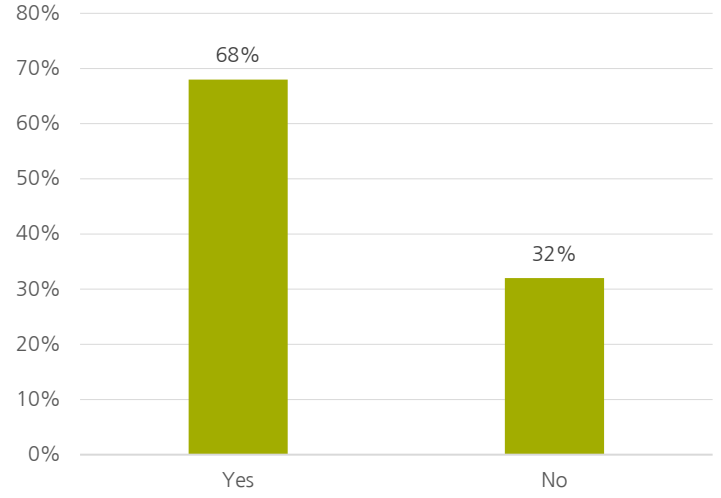
Source: EFG Hermes One on One Conference 2017

**Figure 9: Are you willing to pay hard cash for investment research?**



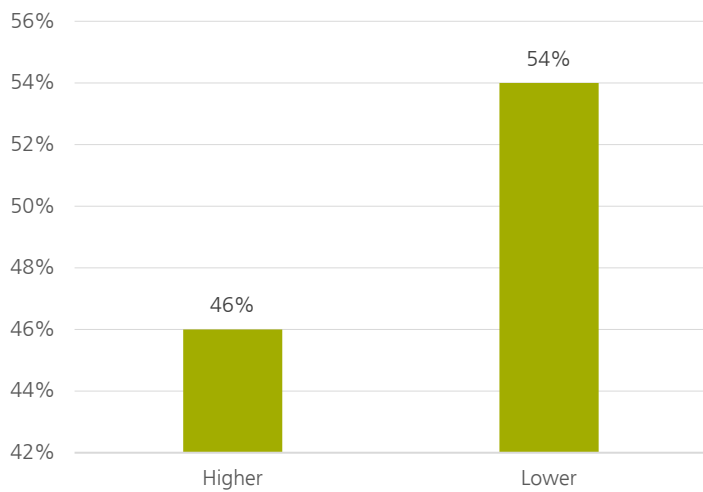
Source: EFG Hermes One on One Conference 2017

**Figure 10: Big frontier markets are being promoted to EM. Will frontier continue to be a standalone offering?**



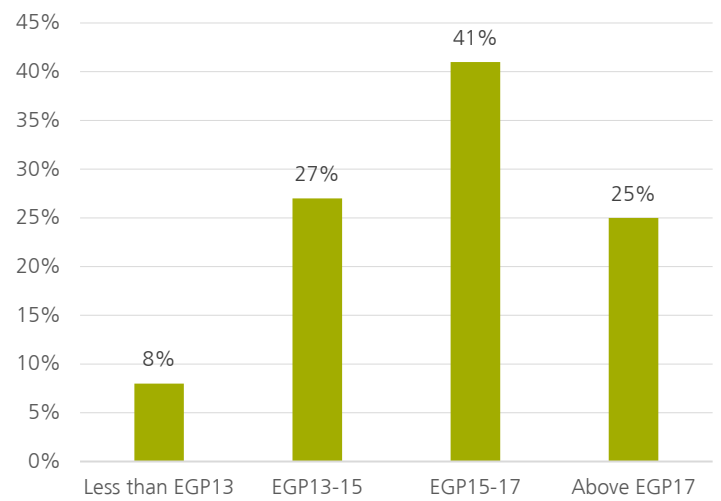
Source: EFG Hermes One on One Conference 2017

**Figure 11: Markets usually drop the year after an MSCI EM upgrade. Will Pakistani stocks be higher or lower in USD terms in one year?**



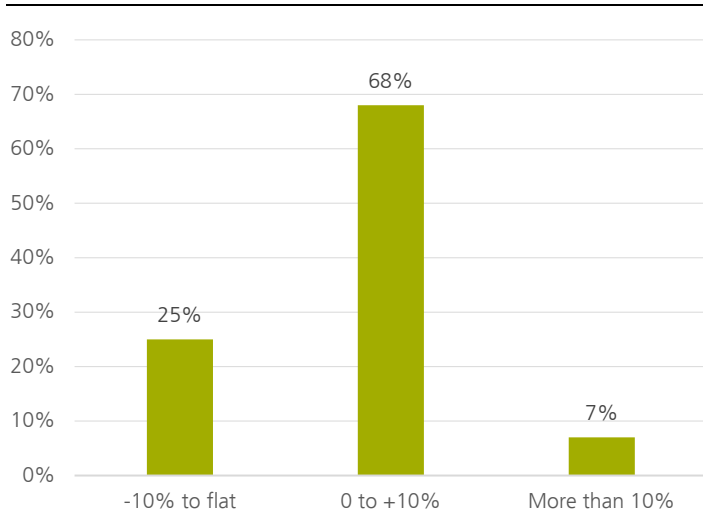
Source: EFG Hermes One on One Conference 2017

**Figure 12: Where will official USD-EGP trade at end 2017?**



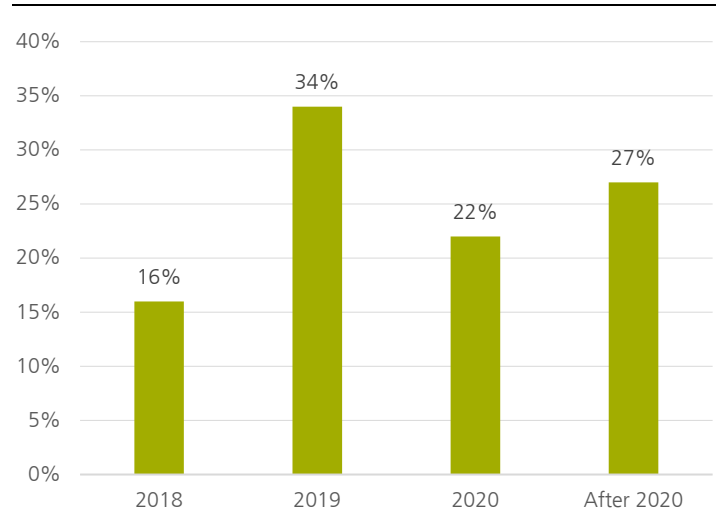
Source: EFG Hermes One on One Conference 2017

**Figure 13: By how much will MENA earnings rise or fall in 2017?**



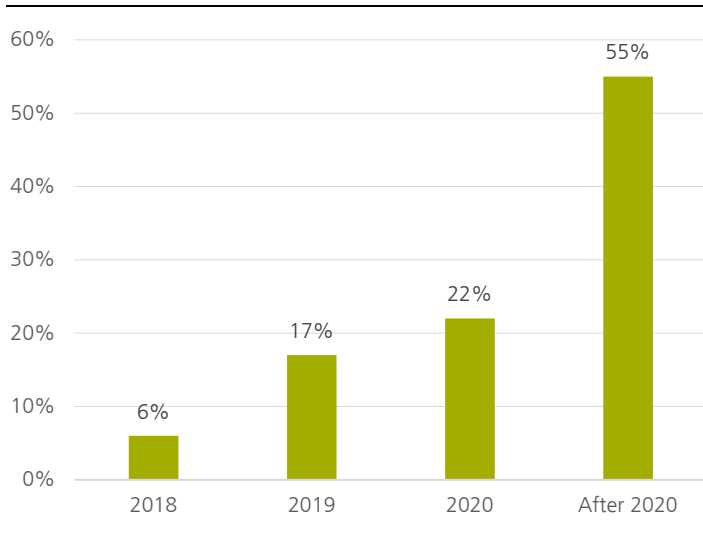
Source: EFG Hermes One on One Conference 2017

**Figure 14: When will Saudi Arabia become part of the MSCI EM Index?**



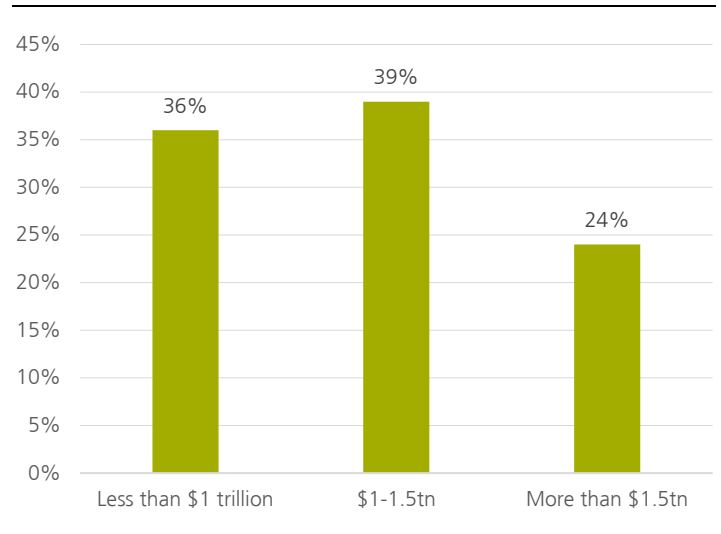
Source: EFG Hermes One on One Conference 2017

**Figure 15: And when will Kuwait become part of the MSCI EM Index?**



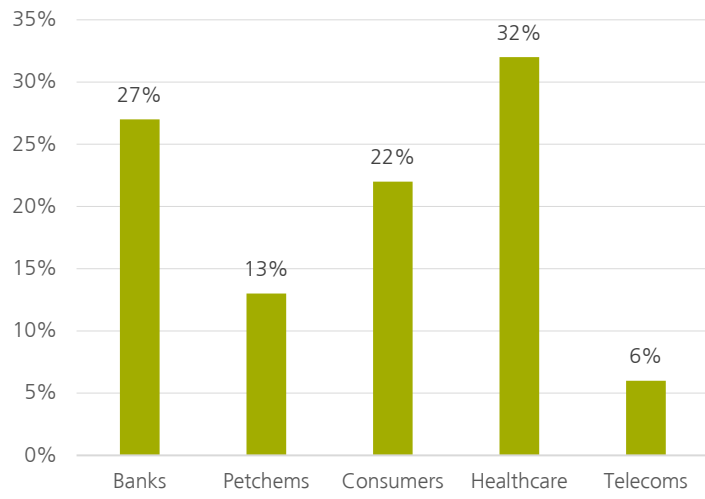
Source: EFG Hermes One on One Conference 2017

**Figure 16: What will be the IPO market cap of Saudi Aramco?**



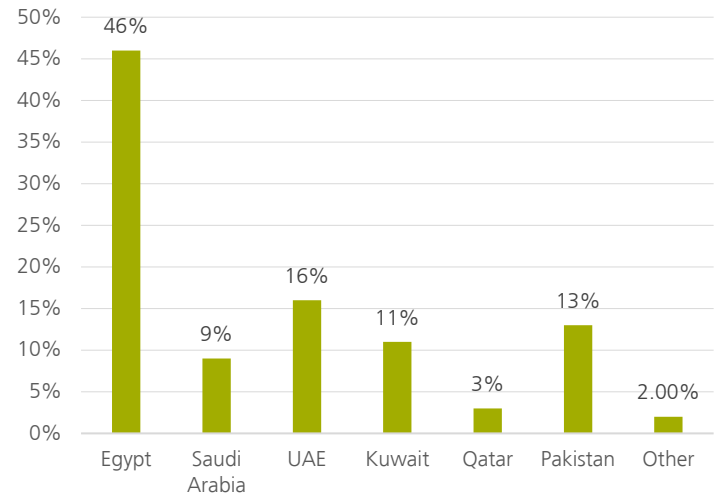
Source: EFG Hermes One on One Conference 2017

**Figure 17: Which sector will see the best stock performance in MENA in 2017?**



Source: EFG Hermes One on One Conference 2017

**Figure 18: Which market will perform the best in MENA and FM in 2017 (USD terms)?**



Source: EFG Hermes One on One Conference 2017

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