

MSCI EM Index - Update

March-2022

GCC markets to attract passive flows close to USD 1.0 Bn...

The Russia/Ukraine situation has shaken up valuations across asset classes globally. The event comes at a time when global markets closed 2021 at near record levels and economies across the globe were expecting recovery from the pandemic, especially in the Emerging Markets (EM). As economic growth picked pace, inflation reached decades high levels in the US and most other market. This prompted central banks to increase interest rates. **Consensus estimates suggested five to six rates hikes this year by the US Fed and equity and fixed income markets were trading factoring in this possibility and expectations largely pointed towards flattish or a small correction in financial markets this year.**

The current Russia/Ukraine situation has led to an earlier-than-expected decline in markets across the globe, particularly in the European region due to proximity and some involvement in the conflict. The MSCI World index is currently trading with a decline of 12.8% since the start of the year reflecting 14.5% decline in European markets while the US dropped by 11.9%. The EM index has also seen a decline, but relatively smaller at 10.1% as gain in Brazil and a smaller decline of 7.3% for the Chinese market partially offsets the overall impact of a 41.3% decline in Russian equities.

With talks of sanctions on Russia and a number of restrictions already in place, investment firms rushed to offload Russian equities. However, with the Moscow Stock Exchange closed for a week, investors were unable to sell their positions, with the added restriction from financial dealing with Russian firms. In addition, Russia last week banned brokers from selling securities owned by foreign investors. **Moreover, investment firms, especially the ones invested in EM, are facing redemption pressure from investors as a result of the declining markets and the exposure to Russia. On the other hand, the inability to sell Russian equities increases the possibility of increasing the weight of Russian allocation in their portfolio, further complicating the situation.** Estimates from Morningstar Direct showed US mutual funds and ETFs owned more than USD 71 Bn in Russian equities and bonds at the end of January-2022.

After contemplating for weeks, MSCI and FTSE announced that the index compilers would remove Russia from their EM universe and treat it as a standalone market. MSCI would reduce the weight of Russia to zero from 9-March-2022. Russia had a weight of around 3.8% in MSCI's Emerging Market Standard Index in December-2021. However, the events at the start of 2022 had already lowered the weight of Russia to around 2.2%, according to reports. With MSCI removing Russia from its indexes, the weight of the rest of the EM countries are expected to increase.

MSCI Standard EM Weights	Weight as of Dec-2021	New Weights excl. Russia
Abu Dhabi	0.95%	0.99%
Dubai	0.23%	0.24%
Kuwait	0.60%	0.63%
Qatar	0.76%	0.79%
Saudi Arabia	3.19%	3.31%
Total GCC EMs	5.73%	5.96%

Avg. Daily Val. Traded (USD Mn)	Since Start of Russia/Ukraine Conflict - 21-Feb-22 to 7-Mar-22	YTD-2022 until 20-Feb-2022	Change(%)
Kuwait	287.1	209.0	37.36%
Saudi Arabia	2,143.1	1,303.8	64.37%
Dubai	81.6	55.2	47.80%
Abu Dhabi	328.4	250.8	30.94%
Qatar	207.9	112.0	85.55%
Bahrain	2.9	1.7	74.50%
Oman	7.7	6.7	16.41%
Total GCC	3,058.7	1,939.2	57.73%

Source : MSCI, GCC Stock Exchanges, Kamco Invest Research

Junaid Ansari

Head of Investment Strategy & Research

+(965) 2233 6912

jansari@kamcoinvest.com

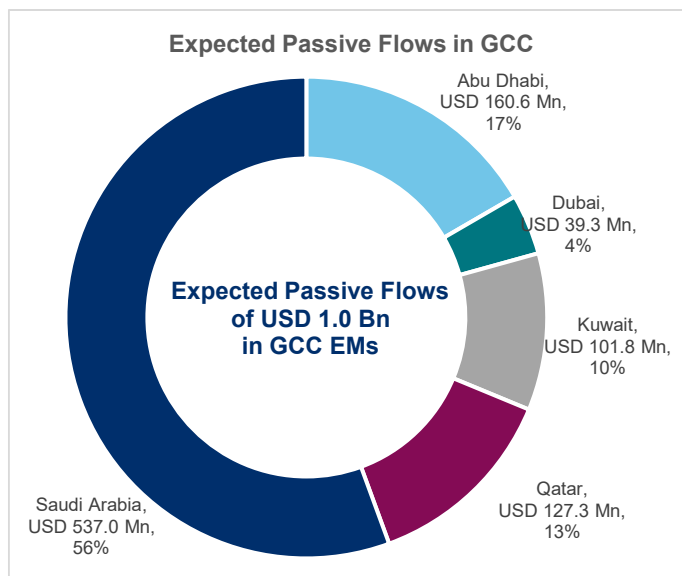
According to reports, there are around USD 1.8 Trillion of active and passive assets tracking the MSCI Emerging Market index globally. Out of this around USD 425 Bn are estimated to be passive funds tracking the index. This would imply that flows to other constituents of the index is expected to increase in the coming weeks as Russia is removed from the index. However, unlike the previous reconstitutions by the MSCI, the inability to sell Russian equities by the fund managers could make the process of reallocation much more gradual as compared to a much shorter window for passive funds.

GCC countries reported a weight of 5.73% in the MSCI EM Standard index as of December-2021. We expect the weight to increase to 5.96% after the index reconstitution. The increase in weight by 0.23% is expected to attract additional passive flows to the tune of USD 1.0 Bn, based on passive funds tracking the index of around USD 425 Bn. In addition, with over 3x active funds, the actual flows to the GCC markets could easily exceed USD 3.0 - 3.5 Bn, in our view.

Trading activity in the GCC witnessed a steep spike since the start of the conflict (since 21-Feb-2022) as active fund managers started reallocating funds out of Russia to other emerging markets. And with the improving crude oil outlook and excellent credit rating profile for the bulk of the GCC countries, the region attracted higher than expected flows from EM investors. Total trading activity in the GCC since 21-Feb-2022 stood at USD 43.9 Bn. Average daily value traded (ADVT) witnessed a steep increase of 58% to reach USD 3.1 Bn since 21-Feb-2022 until 7-Mar-2022 as compared to USD 1.9 Bn in average daily trades since the start of the year until 20-Feb-2022. According to our calculations, GCC markets attracted additional flows of USD 11.0 Bn since the start of the conflict, and the bulk of these trades were by active emerging market focused foreign investors.

Trading activity reports from the five EM exchanges in the region (Kuwait, Saudi Arabia, ADX, DFM and QE) showed consistently net positive trades by foreign investors. Weekly trading report on Saudi Exchange showed SAR 6.9 Bn (USD 1.9 Bn) in net buying by foreign investors for the week ended 3-Mar-2022 and 24-Feb-2022. The Monthly report for Boursa Kuwait showed net foreign buying at KWD 60 Mn (USD 197.4 Mn) during February-2022. Similarly, daily trading activity reports from ADX and DFM showed net foreign buying at AED 2.5 Bn (USD 692.2Mn) and AED 507.7 Mn (USD 138.1 Mn), respectively.

The weekly report for Qatar Exchange showed net foreign buying at QAR 1.8 Bn during the last week of Feb-2022 and first week of March-2022. The increase in trading activity also includes investors that anticipated the shift in funds and invested to take advantage of market movements favoring the regional exchanges. As such, a decline in indices in the GCC cannot be ruled out once passive investors start taking position in GCC stocks. However, as mentioned above, the shift would be much more gradual as compared to previous index reconstitutions.



Source : Kamco Invest Research

GCC Trading Activity (USD Mn)	Aggregate flows since 21-Feb-2022	Estimated additional flows since 21-Feb-2022
Kuwait	2,296.9	624.7
Saudi Arabia	32,146.2	8,392.4
Dubai	1,224.0	263.9
Abu Dhabi	4,925.6	775.9
Qatar	3,118.2	958.5
Bahrain	43.2	13.5
Oman	116.2	10.9
Total GCC	43,870.4	11,039.8

Source : GCC Stock Exchanges, Kamco Invest Research

Disclaimer & Important Disclosures

Kamco Invest is authorized and fully regulated by the Capital Markets Authority ("CMA, Kuwait") and partially regulated by the Central Bank of Kuwait ("CBK")

This document is provided for informational purposes only. Nothing contained in this document constitutes investment, an offer to invest, legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, Kamco Invest did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives. The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in Kuwait or in any other jurisdiction to any other person or incorporated in any way into another document or other material without our prior written consent.

Analyst Certification

Each of the analysts identified in this report, if any and where applicable, certifies, with respect to the sector, companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Kamco Invest Ratings

Kamco Invest research is based on the analysis of regional and country economics, industries and company fundamentals. Kamco Invest company research reflects a long-term (12-month) target price for a company or stock. The ratings bands are:

- * **Outperform:** Target Price represents expected returns $\geq 10\%$ in the next 12 months
- * **Neutral:** Target Price represents expected returns between -10% and $+10\%$ in the next 12 months
- * **Underperform:** Target Price represents an expected return of $< -10\%$ in the next 12 months

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. Kamco Invest policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by Kamco Invest's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to Kamco Invest clients.

Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Kamco Invest and shall be of no force or effect. The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is fair, accurate or complete and it should not be relied upon as such. Kamco Invest has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The publication is provided for informational uses only and is not intended for trading purposes. The information on publications does not give rise to any legally binding obligation and/or agreement, including without limitation any obligation to update such information. You shall be responsible for conducting your own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Kamco Invest is a party.

Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service. This document is directed at Professional Clients and not Retail Clients within the meaning of CMA rules. Any other persons in receipt of this document must not rely upon or otherwise act upon it. Entities and individuals into whose possession this document comes are required to inform themselves about, and observe such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorization, registration or other legal requirements.

Kamco Invest Investment Company (DIFC) Limited ("Kamco Invest DIFC") is regulated by the Dubai Financial Services Authority (DFSA). Kamco Invest DIFC may only undertake the financial services activities that fall within the scope of its existing DFSA licence. This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA, and no other person should act upon it.

This document may not be distributed in Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority. The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. The recipients of this document hereby should conduct their own due diligence on the accuracy of the information relating to the contents of this document. If you do not understand the contents of this document you should consult an authorized financial advisor.

Risk Warnings

Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected. The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).

Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgment. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

Conflict of Interest

Kamco Invest and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Salespeople, traders, and other professionals of Kamco Invest may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document. Kamco Invest may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document. Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other Kamco Invest business areas, including investment banking personnel. United Gulf Bank, Bahrain owns majority of Kamco Invest's shareholding and this ownership may create, or may create the appearance of, conflicts of interest.

No Liability & Warranty

Kamco Invest makes neither implied nor expressed representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, and fitness for a particular purpose and/or non-infringement. Kamco Invest will accept no liability in any event including (without limitation) your reliance on the information contained in this document, any negligence for any damages or loss of any kind, including (without limitation) direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.



Kamco Investment Company - K.S.C. (Public)

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 2233 6600 Fax: (+965) 2249 2395

Email : research@kamcoinvest.com

Website : www.kamcoinvest.com

Kamco Invest