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Al Mal Capital

Global Economic and Market Outlook 2022

An eventful start...what next?

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GLOBAL ECONOMY

We had a very eventful start to 2022 where the biggest factor that will affect the global economic growth will be the direction Russia/Ukraine conflict takes. It has already made the energy prices reach 10-year highs of around USD130/barrel which will have a major effect on all the energy consuming economies of the world.

Due to Russia's position as one of the biggest energy suppliers and its relationship with world economies, the chances of recession in certain economies have increased considerably. It is to be noted that whenever we saw 50% increase in energy prices, it was followed by recession.

The global economy is estimated to have expanded by 5.9% in 2021, a year marked by unprecedented turbulence from the COVID-19 pandemic, on the back of a successful roll-out of vaccinations and generous stimulus packages by the governments. This is its strongest post-recession pace in 80 years. The world entered 2022 with economies held back by a supply chain crisis and the rapid spread of the Omicron coronavirus variant.

We expect to witness the global economy growing by around 4.1% according to the World Bank and 4.4% according to the IMF, subject to further possible downgrades due to the Russia-Ukraine crisis. These include robust pent-up demand, a still supportive fiscal and monetary policy regime and the continued relaxation of COVID-19 related restrictions propelling industries such as tourism and travel.

During the pandemic, production fell dramatically on widespread factory shutdowns. However, demand for consumer durables, especially electronics, only increased, fueled by diverted income that would have otherwise been used for services, as well as strong disposable income thanks to stimulus packages. Supply chain disruptions owing to Covid-19 restrictions further aggravated the situation.

The global economy is estimated to have expanded by 5.9% in 2021, a year marked by unprecedented turbulence from the COVID-19 pandemic, on the back of a successful roll-out of vaccinations and generous stimulus packages

Consequently, inventories throughout the global economy dwindled. Supply chain issues are likely to be less of an acute problem in 2022.

Production is set to improve as restrictions are lifted leading to a comparatively smoother supply chain. However, other issues like labour shortages, the need for new investments in production facilities and reoccurrence of the virus outbreaks would take longer to resolve and have a negative impact on the global supply chain. The services sector, which constitutes a major share of the overall global economy, is forecast to recover at a higher rate as more restrictions are lifted and industries adapt themselves to the "new normal" through technology integration and upskilling the workforce.

The positive growth prospects for both industrial production and services imply that the global economy should be able to withstand the gradual withdrawal of emergency fiscal stimulus.

GLOBAL ECONOMY

As said previously, although growth prospects slowed down to 4.1%, and have the possibility of slowing down further due to the Russia-Ukraine crisis, we should expect to still be on course to register low positive growth going forward.

In 2022, businesses would need to navigate multiple transitions in the global economy. These include the transition from pandemic to endemic COVID-19, the shift from fiscal policy stimulus to restraint in government spending, rising interest rates and tightening credit conditions, and a transition from hydrocarbons to renewables in the face of skyrocketing commodity prices.

Oil at USD 100/b represents a massive boon to the GCC economies. As per Jefferies, we are now looking at oil closer to USD 90-100/b which would mean that all the GCC countries should be running surpluses, with the exception of Bahrain.

Oil at USD 90/b would mean an aggregate surplus of 8.0% of total GDP, while at USD 100/b this would be even closer to 10.9%, meaning between USD 150-215bn in combined surpluses, equivalent to 22-32% of total gross reserves.

This is most pronounced in Saudi, the largest economy in the region with oil at USD 90/b resulting in a surplus of USD 75bn, 7.8% of GDP and going up to c.USD 110bn (11.1%) at oil of USD 100/b. This would be significant as percent of current reserves, equivalent to c.17-24% of the reserves held at SAMA and a major boost as compared to total outstanding debt at 9-14%.

Given the work that the regional governments have put in over the past few years to improve their fiscal accounts, and the current focus towards mega projects, we would expect these surpluses to be put to good use through productive CapEx spending rather than current spending as in the past, while also setting a part aside as reserves with their respective central banks or SWFs.

Asset Class Returns

ASSET CLASS	YTD 2022	2021 RETURN	ASSET TYPE
Bitcoin	-15.8%	59.8%	Cryptocurrency
WTI Crude Oil	58.5%	56.4%	Commodity
S&P GSCI	39.6%	37.1%	Commodity
Dow Jones Real Estate Index	-9.9%	35.1%	Real Estate
S&P 500	-8.9%	26.9%	Equities
S&P/TSX Composite	1.2%	21.7%	Equities
Russell 2000	-10.7%	13.7%	Equities
MSCI EAFE	-12.6%	7.8%	Equities
U.S. Dollar	1.8%	6.4%	Currency
Bloomberg Barclays Corporate Bonds Index	-5.4%	-1.2%	Bonds
Bloomberg U.S. Treasury Index	-2.2%	-2.5%	Bonds
Gold	7.4%	-3.6%	Commodity
MSCI Emerging Markets	-7.0%	-5.5%	Equities
Silver	10.3%	-11.7%	Commodity

Source: TradingView YTD: As on 6 March 2022

GLOBAL ECONOMY

How inflationary pressures will play out?

Given the uncertain times we are living in in which there are multiple supply and demand levers moving in unpredictable directions, it is difficult to measure the impact of inflation in 2022.

Presently, there are a number of inflationary and deflationary trends at work. While there was a huge demand for goods during the pandemic, an inventory glut at manufacturers and retailers could emerge as they build up excess inventory. This could pressure prices. On the other hand, supply shocks in services, which had little reason to invest over the past two years, along with higher labour costs, is driving higher prices.

Technological advancements undertaken to adapt to a post pandemic world are deflationary in nature. Then again while remote work lowers commercial property prices, it raises those of homes. While robot installations would be good for companies, it would be negative for the unemployed faced with rising fuel and food costs. Furthermore, shifting geopolitics resulting in a shift from efficiency to resilience in supply chains, that would favor localized production and new sovereign-backed digital currencies, is adding to the uncertainties surrounding inflation.

Most of the central banks are playing by the ear. Fiscal and monetary policies are being based on how inflation responds to the rapidly changing economic conditions. Consequently, what the world is going through with regards to containing inflation, has been dubbed as a “bullwhip effect”, in which efforts to fix immediate inflationary issues create their own complex, delayed ripples that further distort prices.

Central Banks’ response: A difficult balancing act

During the pandemic, most central banks executed significant asset purchasing programs to provide liquidity to financial markets and aid economic recovery. However, the era of loose policies is finally coming to an end with many central banks beginning to relegate asset purchases prior to increasing interest rates.

With inflation in many regions likely to remain above central banks’ targets in 2022, tightening of policies is expected. The market is expecting more than 4 rate hikes this year but again it depends on how the inflation moves with the rise in energy prices due to Russia/Ukraine conflict.

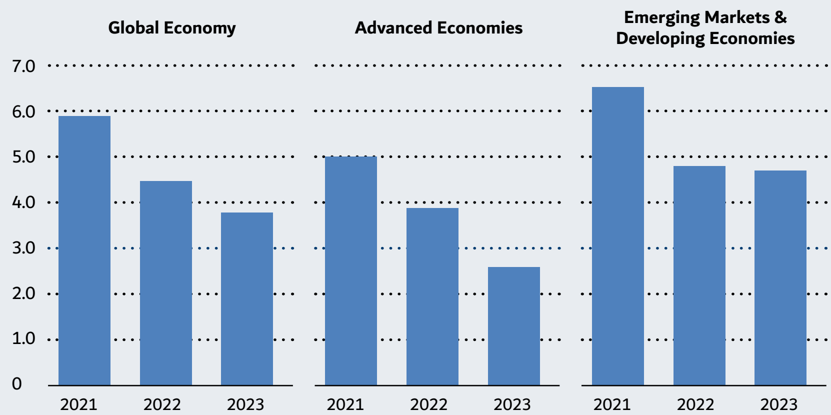
This would result in a little more than the expected 2% tightening over the next three years. The Fed also increased the tapering of its bond purchases by USD 30bn, with this reduction ending by March 2022.

The European Central Bank (ECB) has announced a cut in its bond buying under its Pandemic Emergency Purchase Programme (PEPP). However, the ECB has allowed itself a certain degree of flexibility to adjust this programme in case the situation worsens any further. Bank of England recently hiked rates to 0.25% to counter higher inflation levels.

However, the legacies of the pandemic have aggravated challenges faced by policy makers as they aim to balance the need to support the recovery while safeguarding price stability and fiscal sustainability. Tightening, followed by discovering the inflation threat is transitionary, could derail recoveries; waiting and finding that price pressures are persistent could require more aggressive tightening than otherwise. Consequently, the extent to which central banks change their policies would depend on how the macro-economic scenario unfolds.

Rising real interest rates lead to lowered capital market returns (notably bond returns) and higher volatility. Rising real interest rates also negatively affect the ability of governments and households to service debt, which is why central banks will closely monitor this scenario and ensure it remains manageable.

Growth Projections



Source: International Monetary Fund

Regional Outlook

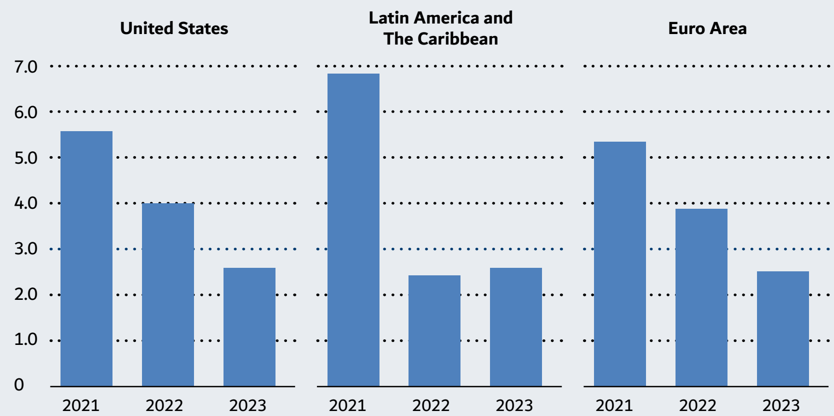
USA

We expected real GDP growth of 3.8% in 2022, but a halting service rebound and ongoing supply chain issues are complicating the final stages of the pandemic recovery. Although the US isn't as strongly linked to either the Russian or the Ukrainian economy, the effects of this war are more visible in the Eurozone and commodity markets which could slightly lower the American economic outlook.

Although inflation is expected to slow to 4.5% after an extreme spike earlier in 2021, risks remain to the upside in the face of rising oil, gas, food and fertilizer prices. Global supply chain shocks could lead to more strength in goods prices in the near term, and lead indicators for shelter inflation have picked up significantly. The Fed is beginning to gradually remove accommodative policies. Tapering of asset purchases will begin in mid-November 2021 and continue into the middle of next year.

High (but falling) core inflation and strong progress toward full employment in 2022, amid market expectations of imminent tightening, is likely to deliver one rate hike from the Fed by the end of next year. In terms of politics, the Biden administration's infrastructure package will support growth in 2022. There could also be renewed political gridlock ahead if Democrats lose the midterm elections in 2022.

Growth Projections



Source: International Monetary Fund

Latin America and the Caribbean

Real GDP in Latin America and the Caribbean is forecasted to expand at an annual average rate of 3% in 2022 after registering 6.3% growth in 2021. While this represents a significant slowdown, growth remains above pre-pandemic levels of 0.7% in 2019.

Inflation is expected to remain elevated, with higher commodity prices and supply chain disruptions being the main contributing factors. Growth rates are likely to vary across regions: Colombia, Peru and Mexico are expected to experience the strongest growth rates, while Brazil is set to lag the region on strong monetary tightening and an uncertain political outlook.

An effective and successful vaccination program managed to contain the pandemic to a great extent in the Eurozone thus allowing the economies there to reopen

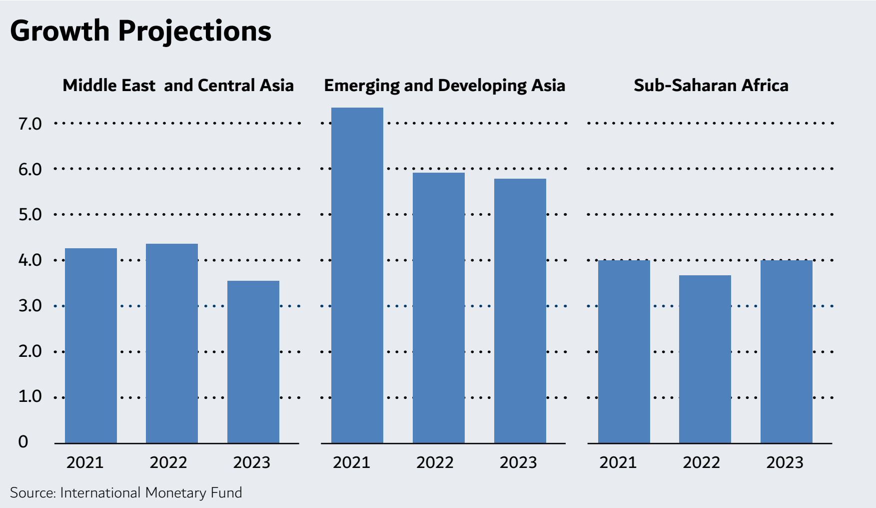
Eurozone

An effective and successful vaccination program managed to contain the pandemic to a great extent in the Eurozone thus allowing the economies there to reopen, but a resurgence in COVID cases and the Russia-Ukraine crisis could spell bad news for most economies in the region.

The region previously grew quickly but lagged developments in the US. Following a sharp recovery in growth until the third quarter of 2021, it entered a soft patch. Supply chain disruptions are restraining industrial output, which can only go up if those issues are smoothened.

As inflationary pressures prevail, the ECB should cut back its asset purchase program in the coming months. Continued inflationary pressure and looser fiscal policies could lead to hawkish guidance on rates beyond next year.

GLOBAL ECONOMY



Political developments in the region will also have an impact on the economic growth. The Russia-Ukraine crisis has led to skyrocketing oil, gas, and electricity prices for the continent. Germany, which has shut down the Nordstream 2 pipeline with Russia, is possibly facing a recession according to its Bundesbank.

There appears to be scope for a material step forward in European integration next year if the coalition led German government support making the EU Recovery Fund a permanent fiscal mechanism. While the Eurozone is expected to have grown at 5% during 2021, it was forecast to grow at 4.3% in 2022. But considering skyrocketing commodity prices, the Russia-Ukraine crisis, and a combined German recession and growing inflation, we consider this number to be rather unlikely.

UK

The UK economy continues to recover at a fast pace driven mainly by household consumption. It is likely to revert to pre-pandemic levels by the first quarter of 2022. However, there are indicators that growth is losing momentum as the initial boost of reopening wanes coupled with labour shortages and supply bottlenecks.

While demand should continue to be supported by the economic rebound and high levels of consumer savings, higher inflation, the end of the furlough scheme and the withdrawal of other fiscal support measures would negatively impact consumer and business spending. Bank of England is likely to hike bank rates twice in 2022 to curb inflationary pressures.

Japan

After going through a leadership change in 2021, Japan is set to receive a new stimulus package worth JPY 20-30Tr by January 2022 to aid economic recovery. The package is likely to focus on small businesses (offering consumer services), households, sectors (healthcare, agriculture and fishery, tourism, among others) and local governments with weak financial positions.

Funds would also be set aside for investments in the renewable energy sector as well as nuclear power generation. The rapidly changing geopolitical environment would also result in the government increasing its fiscal spending on national security substantially. GDP growth of 2.6% is forecasted for 2022 as against an estimated 2.9% in 2021.

China

Chinese economy registered strong recovery before experiencing a renewed slowdown due to a large real estate company's default, leading to a deceleration in investments into the sector, which is an important growth engine. In addition, production setbacks on power outages, regulatory changes and policy reforms also impacted economic growth.

According to World Bank estimates, China's GDP expanded 8% in 2021. Economic growth is likely to further slowdown as the property sector remains encumbered, and on rising living costs as a result of China's zero-Covid strategy, a slowing pace of exports, and the impact of factory closures before and during the Winter Olympics in February.

However, with the government offering support to the real estate sector and pent-up demand for Chinese exports, the economy is forecasted to grow at 5.1%. This would mark the second slowest pace of growth for China since 1990.

What will a post-pandemic world be like?

The world will never be the same again post pandemic. In many ways, the health crisis sent unprecedented shocks to the global economy, placing governments and businesses in uncharted waters. While many pandemic induced measures (such as lockdowns) are temporary, there are others that would have a long-lasting effect. In addition, the pandemic opened our eyes to various pressing matters. The economic make-up of a post-pandemic world would be shaped by a number of factors including changing demographics; more state capitalism; decarbonization and the ever-evolving technology frontier.

With regards to demographics, the world has reached a situation characterized by a stagnating (or in few cases even shrinking) working age population in most parts of the world owing to an ageing population. This should lead to tighter labour markets, providing workers with more bargaining power that could lead to an increase in the average wage growth.

Businesses also realized the benefits of hiring gig workers. Gig workers include independent contractors, online platform workers, on-call workers and temporary workers. They enter into formal agreements with on-demand companies to provide services to the company's clients. Services range from low-skilled, routine work, right through to highly-skilled expertise in creative and digital industries, education (EdTech) and healthcare.

A deeper analysis of the labour market highlights another important development. Several mid-level jobs in developed markets have disappeared over the last two decades; simultaneously, there has been a proliferation of both high- and low-paying jobs.

This has widened wealth and income inequalities, which governments may address with more equitable income distribution via new taxes or regulations. China has already adopted a range of new "common prosperity" policies to this effect; the US is likely to follow suit. Such a trend could lead to increased state capitalism or in other words, government involvement in businesses.

According to report by the World Economic Forum, investing in nature-positive solutions could create USD 10Tr in new business opportunities while reducing up to 37% of greenhouse gas emissions by 2030.

Perilous weather conditions caused by climate change are a looming threat that the world is facing. Adverse climatic changes such as higher temperatures, more frequent and intense storms, floods and famines, rising sea levels, are causing damage to ecosystems and resulting in a loss of biodiversity.

A number of countries have taken a pledge to reach net zero emissions targets. Solutions that address these crises could put pressure on government budgets.

As a result, this could lead to additional investment opportunities for the private sector. Immense investment opportunities also exist within the renewable energy space, green buildings, as well as related technology such as BioEnergy with Carbon Capture and Storage (BECCS) and Direct Air Capture.

New technologies such as quantum computing, AI or Blockchain applications are changing the manner in which businesses and governments function. As enterprises and governments continue to transform digitally to ensure0 operational continuity, remote working and automation is likely to continue in 2022. Digital security will be a high priority as businesses are transformed by a digital-first approach.

The main challenges to the global economy are expected to stem from a continued trend toward deglobalization, changing geopolitics and stickier inflation. The transition toward net zero carbon by economies in the face of a looming climate change comes with its own set of challenges and opportunities for global growth. Lessons learned about resilience in the face of disruption during the pandemic will become increasingly important in the times to come.

GCC ECONOMY

Rebounding Middle East economy as oil surges and pandemic induced adversities wane

The Middle East is staging a recovery from the pandemic, helped by higher oil output and easing lockdown and health restrictions. Rapid rollout of vaccinations helped restore domestic demand and allowed mobility.

Countries including Bahrain, Israel, Saudi Arabia, and the UAE have been leading the vaccination drive in the region, and others such as Kuwait and Iran are catching up. Other Middle East countries are lagging, remaining more prone to new waves of the virus. Middle East GDP is poised to grow 4.4% in 2022, higher than the 3% registered in 2021.

Supported by higher oil output and prices, as well as increased domestic demand, business optimism is likely to prevail, pushing the region towards pre-pandemic growth levels by the first quarter of 2022. GCC GDP, which grew by 2.7% in 2021 is likely to accelerate to 5.0% in 2022.

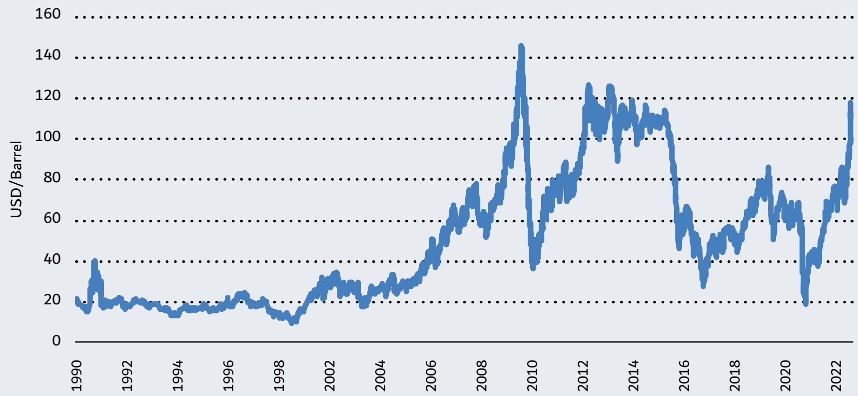
The recovery pattern, however, will be different across member countries and would be dependent on their growth strategies and adopted policies. While UAE's proactive approach with regards to luring FDI and foreign talent, in addition to higher budget headroom, would enable it to outpace its regional counterparts, Kuwait's and Oman's workforce nationalisation policies pushing away talent could experience a more I-shaped recovery.

Oil sector shines as global energy demand surges

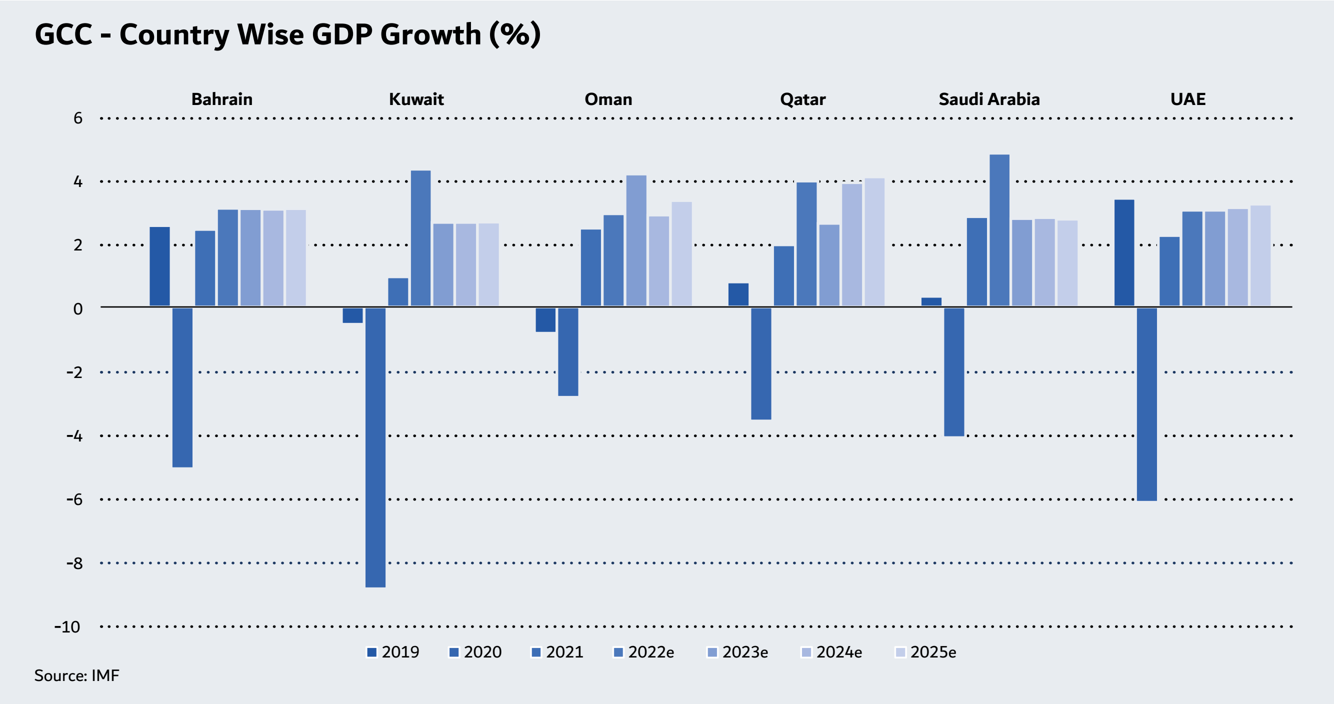
The oil sector has regained its earlier shine as OPEC+ quota restrictions were tapered, and output was increased to meet surging global energy demand. The sector should continue to be a significant growth driver in 2022 as producers expand capacity.

The sector was also bolstered by higher oil prices, climbing to USD 95pb as OPEC+ only gradually boosted supply, while demand recovers. However the Russia/Ukraine crises seems to have created jitters in the energy markets due to Russia leading position among the producers and the energy prices rocketed in the Feb/ March 2022. The oil is trading around USD130/barrel as we write this note.

Global Price of Brent Crude



Source: Bloomberg



Non-oil sector benefits as domestic activity normalizes

The non-oil sector is gradually gaining momentum as reflected by the readings of Regional Purchasing Managers Indexes (PMIs) which are above 50 (a reading above 50 indicates an expansion of the non-oil private sector). The sector has benefitted from economic recovery as domestic activity normalised and restrictions were eased.

As border restrictions were lifted, the region once again witnessed an influx of tourists which helped drive a recovery in the hospitality sector after being impacted by pandemic woes. Dubai in particular received a significant boost due to the start of Expo 2020.

Most oil dependent economies have already embarked on diversification plans to develop and strengthen their non-oil sectors. Emerging technologies such as AI ML, blockchain and the broader migration towards digital platforms and marketplaces would further facilitate the evolution of these sectors.

This can yield a transformation in the business environment, which in turn would have a far-reaching effect on economic trends and social dynamics.

As digital penetration continues to increase over the coming years, the region's non-oil sectors—retail, healthcare, education, mega-event projects, and renewable energy—would dominate the economy, creating future opportunities in the region.

GCC economies moving towards budget surpluses

The increase in commodities prices is generally positive for GCC countries, given the structure of their economies, the dominance of hydrocarbons in their exports, and their strong financial profiles, which will help them absorb any increase in food prices.

Government fiscal positions have been boosted by higher energy prices and oil revenues, and lower post pandemic stimulus spend . Saudi Arabia's budget swung back in the black in the third quarter of 2021 after more than two years in the red. Qatar and the UAE's budgets are in a surplus in the first half of the year. Going forward, sustained oil revenues and the GCC governments' plans of fiscal restraint are expected to result into an overall GCC budget surplus next year for the first time since 2014.

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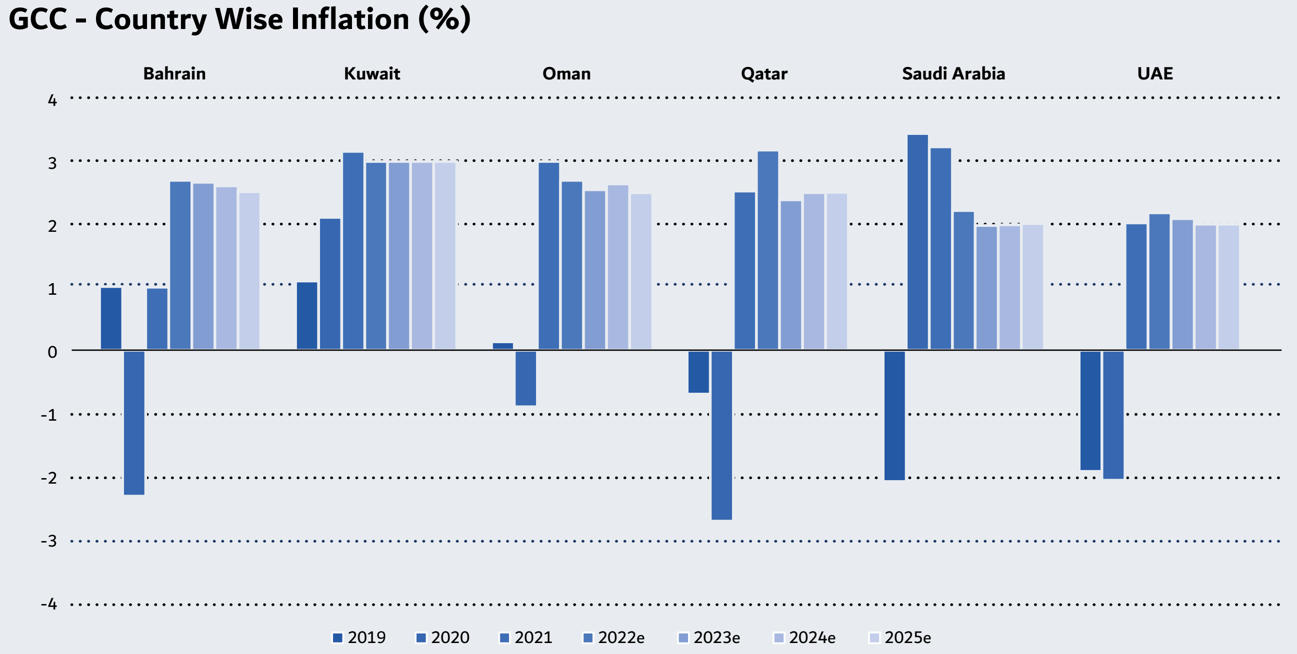
GCC ECONOMY



Source: IMF

Current inflationary pressures to ease towards the second half of 2022

Upward inflationary pressure is directly correlated to high energy prices adversely affecting transportation and import prices. Oil-importing economies in the MENA region are particularly susceptible to such a trend.

High food prices and supply bottlenecks are further adding to inflation pressures. Nevertheless, inflation has been much less of a problem across the oil-exporting GCC countries. Moreover, it is believed that energy and food prices have likely peaked and hence regional inflation would gradually subside in the coming months.

Amid economic uncertainty surrounding the resurgence of new variants, central banks are either phasing out or pursuing support measures. However, central banks continue to maintain key policy rates at very low levels to encourage sufficient credit and investment growth.

Many economies in the region have their currencies pegged to the US dollar and as such base their policies on US Federal Reserve's monetary policy decisions. Other central banks (especially Egypt) are likely to watch interest rate decisions in the US closely, because of the impending risk of capital flight from emerging markets once advanced economies start raising interest rates.

Saudi Arabia

The Saudi economy is experiencing its highest growth since 2012 thanks to higher oil revenues in the face of higher global energy demand. The gradual phasing out of lockdowns and travel restrictions, coupled with an increase in domestic spending boosted the non-oil sector. As a result, the Saudi GDP growth touched 2.84% in 2021 after the 4.1% contraction in 2020. GDP is likely to grow at 4.83% in 2022.

The oil sector has been a primary factor driving an earlier than expected economic recovery. Production has gradually increased from a low of 8.1m b/d in the beginning of the year as cuts to OPEC quotas were tapered to meet exponential growth in global demand.

GCC ECONOMY

Production is likely to rise through 2022 with Saudi Aramco forging ahead with its production capacity expansion plans. Consequently, supported by sustained demand and a rise in production, the Saudi oil sector is forecasted to expand by 9.5% in 2022.

The outlook for the non-oil sector has improved post pandemic. Manufacturing PMI, reflecting economic and business health, regained momentum, with recent readings at their highest levels since the start of the pandemic. Non-oil growth for 2021 is estimated at 4.4% followed by 2% next year. The country has also submitted a bid to host the World Expo 2030 which, if successful, would offer a significant growth impetus to the tourism and infrastructure sector. As an indicator, estimates for UAE's current Expo place the boost to its economy at around 1.5% of GDP with 25m visitors.

Saudi Arabia also aims to achieve net zero carbon emissions by 2060. It intends to reduce CO_2 emissions by over 4% of its global contribution by 2030 and increase protected areas to 30% of the total land area (from 5% currently). In order to achieve these targets, the government has devised over 60 initiatives with a cumulative investment outlay of c.USD 190Bn.

Saudi Arabia has also submitted a bid to host the World Expo 2030 which, if successful, would offer a significant growth impetus to the tourism and infrastructure sector

The non-oil sector should benefit from the country's economic diversification efforts aiming to reduce its reliance on oil, which currently contributes to about 40% of the GDP. As part of this plan, the government introduced the National Investment Strategy which aims at setting up special economic zones offering favourable regulations and incentives to attract investment in several sectors.

Foreign direct investment (FDI) is viewed as an important contributing factor to this diversification strategy. Consequently, the government has set an ambitious annual target of attracting about USD 100bn in FDI (up from an average USD 5.2bn over 2015-19).

Accelerating oil revenue owing to higher oil prices and oil output, coupled with a rapid increase in non-oil revenue has eased pressure on public finances. The trend is expected to continue as output recovers. Along with slightly relegated spending announced in its recent budget update, KSA is likely to enjoy a small budget surplus for the first time since 2014.

In line with global inflationary pressures, Saudi Arabia is witnessing a rise in inflation due to increase in food and transportation costs driven by growing domestic demand.

United Arab Emirates

The UAE economy is close to recovering from pandemic induced losses on the back of higher oil output, easing of mobility restrictions and Expo 2020, helping the economy grow by 2.24% in 2021.

Sustained growth in energy demand, along with government support augurs well for the economic outlook, with the economy projected to reach pre-pandemic levels by Q1 2022, and GDP growth forecasted at 3.04%.

The rise in oil output is contributing to accelerated growth in 2022. The country's production baseline can benefit from its reference production baseline being lifted from the current level of 3.2m b/d to over 3.5m b/d from May 2022. Over the next decade, the oil sector should continue to be a significant growth driver with ADNOC planning on raising output to 5m b/d by 2030.

The non-oil sector has also been growing at a rapid rate, estimated to have grown by 4% in 2021, and expected to remain at this level during 2022..

GCC ECONOMY

Manufacturing PMI indicates strong growth in output and new orders partly backed by rising demand from the World Expo 2020, which began in October 2021. The travel and tourism sector, constituting about 16% of the country's GDP, has benefitted the most as evident by hotel occupancy rates in Dubai rising over 80%, registering a three-year high.

The UAE is likely to have a fiscal surplus on surging revenues from both oil and non-oil revenues and this bolsters the country's clean energy initiatives.

In line with its pledge to become a net zero economy by 2050, UAE has earmarked USD 163bn in green investments. FDI continues to be an important investment source for the realisation of the country's green initiatives as well as its diversification strategy.

As such it aims to become one of the 10 largest FDI destinations by 2030 (from being the 15th largest recipient in 2020). Dubai has announced plans to introduce a five-year multiple entry visa to foreign companies residing there.

Along with foreign capital, foreign talent is also important to the country's long-term development.

The travel and tourism sector, constituting about 16% of the country's GDP, has benefitted the most as evident by hotel occupancy rates in Dubai rising over 80%, registering a three-year high

In order to attract the right talent for the development of a skilled and stable workforce, the government has come up with a number of private labour law reforms which gives additional protection to workers as well as flexible working environment. The move comes just at a time when workers are looking at hybrid and flexible working model post pandemic.

Inflation became positive for first time since 2018, in the later part of 2021 due to increases in the price of transport, recreation and education.

As per S&P, the Russia/Ukraine conflict could also hit tourism sectors in some countries at a time when they are recovering from the COVID-19 pandemic, especially those that depend on Russian or Ukrainian visitors, such as the United Arab Emirates (UAE). Russians were among the largest market for Dubai's travel and tourism sector in 2021.

GLOBAL EQUITY MARKETS

Global equity markets to track corporate earnings growth; pricing power to be a determining factor for earnings growth

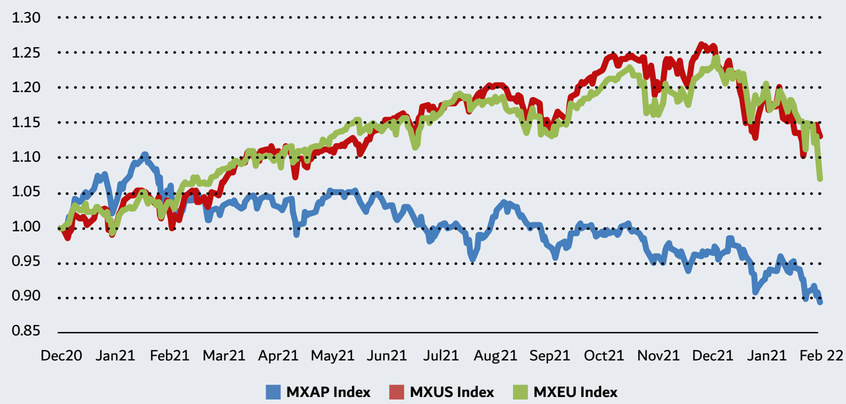
The year 2021 was an exceptional year for equity investors with most equity markets and regions delivering remarkable returns. Earnings growth was strong as evidenced by MSCI AC World with earnings surpassing pre-pandemic highs during the year. This was the primary factor driving robust equity returns in 2021. The price to-earnings (P/E) ratio however decreased on already elevated levels and investors' expectations of waning fiscal and monetary support seen during the COVID-19 era.

2022 was touted to be the year of normalization. Economic growth was expected to normalize; the economy was expected continue to recover but at a slower pace, and with growth more skewed towards the first half of 2022. However all this is now subject to how the economies behave due to the high energy prices and the effect of Russia/ Ukraine issues on different economies of the world especially energy consuming economies.

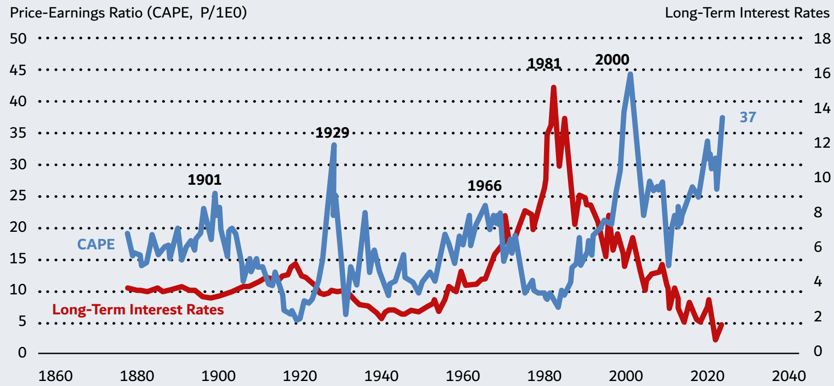
As per consensus estimates, earnings growth would be in high single-digits range for 2022 as opposed to double-digit returns seen in 2021, implying that growth would be closer to long-term averages. The supportive macroeconomic environment should encourage revenue growth and margins to remain strong, however, potentially higher input costs and supply chain disruptions could hamper growth.

The widening producer price index vis-à-vis consumer price index gap, suggest companies have less room to pass on rising costs to the consumer.

MSCI Indices



P/E multiples



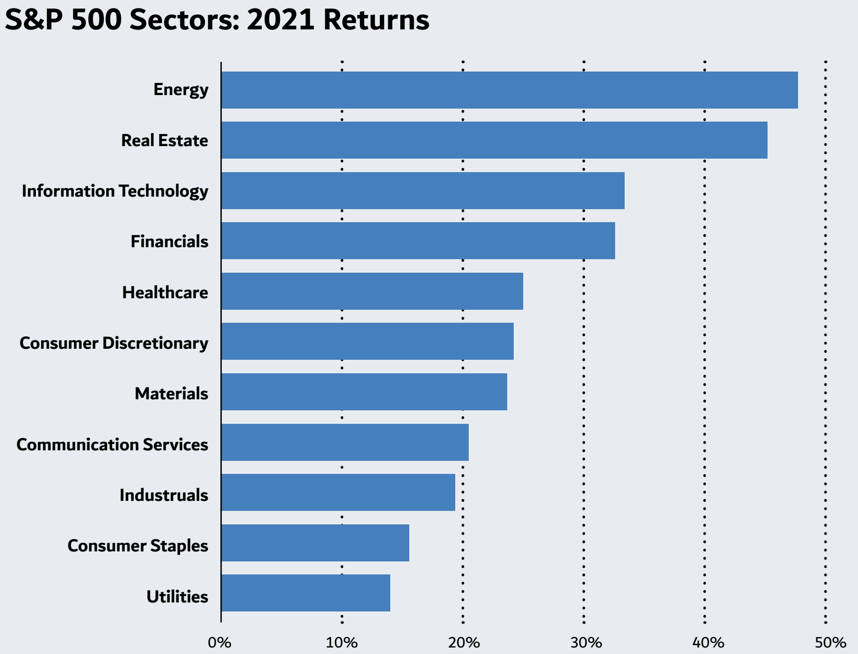
Source: Bloomberg

Against this backdrop, pricing power would become an important subject for equity investors in 2022. Companies that would be able to pass on rising input costs to consumers would perform better than those with weaker pricing power.

Weaker case for elevated P/E multiples

Despite a decline in the market's P/E multiples during 2021, they remain higher than longer-term historical averages. There is little room for multiples to re-rate during an environment of tighter policies, such as rising interest rates, due to rising real yields.

GLOBAL EQUITY MARKETS



Source: TradingView

Sector Outlook

Energy

The energy sector posted its strongest earnings recovery in history during 2021, with >100% increase from the beginning of the year. As per consensus estimates, 2022 earnings are likely to fully recover from the pandemic impact and are projected to be 5% higher than 2019 levels. Nevertheless, structural headwinds from the anticipated transition in energy use, as well as environmental, social and governance (ESG) concerns remain.

Hospitality and Leisure

The hospitality and leisure sectors are expected to do well in 2022, helped by pent-up demand, improving labour markets, and strong consumer welfare.

Information technology (IT)

The IT sector will likely benefit from secular growth trends. The sector includes rapidly growing emerging technologies with potentially disrupting capabilities,. Software and services companies are expected to have stronger earnings and robust cash flow generation.

Financial Sector

Financial companies stand to benefit when yields and interest rate projections are slated to rise. The sector's valuations and earnings remain attractive.

Industrials and Materials

The industrial sector is likely to benefit from the reacceleration in global industrial production as companies race to increase their inventory levels. Materials are expected to register strong returns in 2022 as demand for some metals needed in the transition to more sustainable production and consumption is set to rise.

Communications

The earnings outlook for the sector is mixed. The technology and media elements of the sector are likely to witness strong growth, but are richly valued. On the other hand, the telecom sector has good value but suffers from low weaker growth. In addition, regulatory issues and a possible higher tax regime could have a negative impact on the sector.

Healthcare and utilities

Healthcare and utilities are not preferred sectors for investment. Earnings expectations are still below broader global equities and increase in yields due to the on-going recovery of the global economy poses a risk to these sectors.

Geographic Outlook

United States of America

With the US market accounting for c.60% of the MSCI AC World, any event in the US would have far-reaching effects on the overall global equity market. The tapering of fiscal stimulus packages, upcoming elections, and geopolitics remain key drivers for the US equity markets.

Another potential threat for US equities is tighter monetary policy and potentially rising real yields. Less fiscal spending is the likely scenario in the event the Democratic Party lose their majority standing in the next US midterm elections.

Despite these potential speed breakers, strong earnings can still support US equities. Furthermore, the tech sector, to which US equities are significantly tilted, is projected to benefit from secular growth trends.

GLOBAL EQUITY MARKETS

Eurozone

The economic outlook for the Eurozone looked bright, in the absence of geopolitical tensions, with consensus earnings forecast for the region being among the highest in the major developed markets. However, now Eurozone market will be the most affected by the Russia/Ukraine issue as Russia supplies a major chunk of their energy needs and due to strong trade between the countries.

Corporate earnings would also dictate market performance in the Eurozone. However, political developments would shape market progress, going forward. A victory for a French President skeptical of the EU, would be a risk for European integration.

It would also be interesting to see the unfolding of policies of the German coalition with regards to fiscal spending and European integration, which would in turn support European assets. Developments in China would also have an impact on Eurozone equities, especially those in France (in particular, luxury goods companies) and Germany (auto manufacturers).

Japan

Japan is poised to register strong returns in 2022 backed by an economic rebound, higher exports and supportive government policies.

Emerging Markets

Asian stocks were pressured by slowing growth in China, stricter regulations for tech firms and a worsening real estate market. However, as Chinese growth stabilises and regulatory woes are watered down, corporate earnings are expected to grow in 2022.

South East Asian economies should also witness economic and earnings recovery as the world recovers from the pandemic. Lastly, the semiconductor shortage should continue to support growth for the technology hardware sector. Consequently, Asian equities are poised to deliver attractive returns in 2022.

Latin America

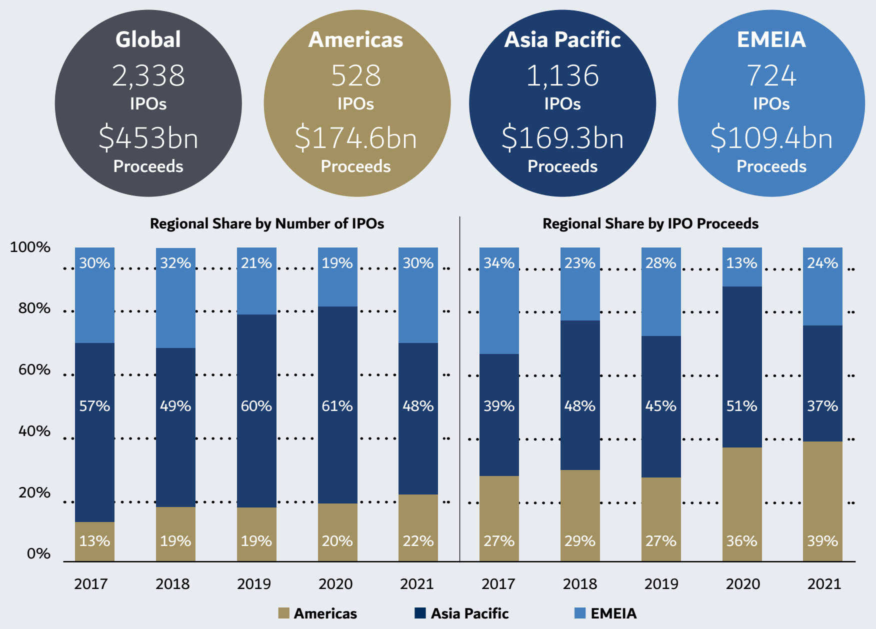
Latin America equities are forecasted to register attractive absolute returns in 2022 after a lacklustre 2021. Equities in the region can benefit from robust global growth and favourable exposure to cyclicals such as financials and materials, which combined represent over 45% of the MSCI EM Latin America. The high dividend yield of c.5% is also supportive of the attractive of the region's equities. However, with seven countries in the region, including Brazil, scheduled for elections, volatility amid heightened political activity pose risk to the market.

Global IPO

The global IPO market had an exceptional 2021, with a record-breaking 2,388 deals coming to fruition, raising USD 453.3bn in proceeds (+67% y/y). Europe, Middle East, India and Africa (EMEIA) exchanges posted the highest growth, witnessing a 158% increase by number and 214% increase by proceeds (724 IPOs raising USD 109.4bn). The Americas witnessed 528 IPOs (+87% y/y) raising USD 174.6bn (+78% y/y). The Asia-Pacific region witnessed comparatively weaker growth with 1,136 IPOs (+28% y/y) raising USD 169.3bn (+22% y/y).

The technology sector had the greatest number of IPOs (611) for the sixth consecutive quarter since Q3 2020 and raised the highest proceeds (USD 147.5bn) for the seventh time since Q2 2020. Healthcare recorded the second highest number with 376 IPOs raising USD 65.4bn. The industrial sector saw 310 IPOs raising proceeds worth USD 63.1bn.

Global IPO Market



GLOBAL EQUITY MARKETS

Going forward, relatively high valuations and market liquidity can sustain IPO momentum, however, geopolitical tensions, inflationary pressures and any resurgence of Covid-19 variants could hamper IPO activity.

Portfolio Positioning

A fully diversified and strategic portfolio that balances exposure with regards to size and market capitalization, investment style, sector, and region, is recommended.

Growth versus Value

Growth and value stocks witnessed diverging trends in 2021. In the beginning of 2021, value stocks outperformed growth as investors priced in the recovery. However, a rise in the Delta variant combined with strong fiscal stimulus helped propel growth stocks. Going forward, value stocks are expected to outperform as economies recover and as supply catches up with demand. Valuation, EPS growth and income opportunities also support value.

Small companies to fare better

Market capitalization plays an important role in helping determine allocation. During 2021, the performance of small caps has been mixed vs. large caps, with variations favouring quality and profitable stocks in the S&P 600® Small Cap Index relative to the broader Russell 2000® Index. Quality small caps are likely to outperform as they benefit from the strong domestic recovery and a steepening yield curve. These companies tend to adapt rapidly to volatile market conditions, which is the likely scenario in the near-term. Earnings growth and valuations are also attractive for these small businesses.

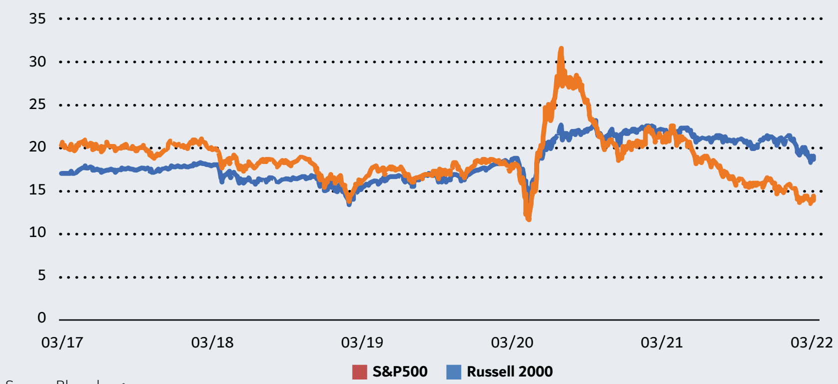
Cyclicals exposure in a diversified portfolio

Cyclicals are in a favorable place, especially after taking into account valuations, the global economic rebound, and infrastructure spending.

Risk Outlook

- How the geopolitical issues between Russia and Ukraine unfolds will be the key risk to the global markets in at least first half of 2022 or maybe for medium term as market wait direction the conflict takes. A wider escalation in light of sanctions will affect global economy and markets as the effects of high energy prices reverberates in the global economy.
- A key risk to earnings growth is rising input costs impacting margins. Further supply chain disruptions could also weigh on bottom-line.
- Persistently high inflation could lead to both excessively tighter monetary conditions, and policy errors, thereby impacting equities.
- In addition, the scope for continued fiscal stimulus is weak, and this was a key supporting mechanism for global equities. Governments are already slowly rolling back fiscal packages and policies.
- China also remains a potential risk for global equities. A slowing Chinese economy and the risk of further regulatory headwinds could continue into 2022. Despite Beijing's recent shift in policy, growth is forecasted to weaken further in H2 2022 on the back of a worsening property sector, rising costs of the zero-Covid strategy, reduction in exports and production shutdowns before and during the Winter Olympics. Power outages and industrial dislocation in China could have a cascading effect on the global supply chain. Europe remains particularly vulnerable to power and supply chain disruptions.
- Furthermore, there are several elections slated for 2022. These include the US midterms and the presidential elections in France and Brazil.
- The US midterms could result in policy gridlock and the economy could falter if Joe Biden is unable to pass his USD 1.75tr Build Back Better legislation through the Senate.
- Finally, the resurgence of new virus variants that could render current vaccines less effective remains a risk to the equity markets.

US small-cap stocks - Forward P/E ratio



Source: Bloomberg

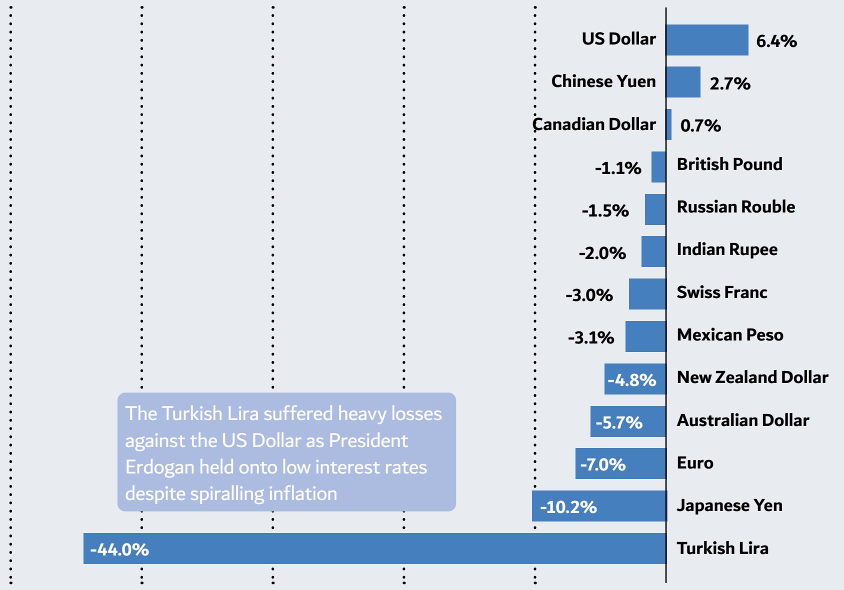
GLOBAL FIXED INCOME

Fixed income investors had a bumpy ride in 2021. Bond yields rode waves of optimism and uncertainty about the economy throughout the year. As economies reopened earlier than expected from COVID-19 lockdowns, yields surged during Q1 21.

This was soon followed by a rebound in virus cases as the Delta variant took the world by storm. By the end of 2021, short-term yields soared to their highest levels since early 2020 in anticipation of tighter monetary policy, but 10-year Treasury yields pulled back from the 1.70% level reached in October in spite of soaring inflation.

Investors should position in anticipation of either a supportive policy regime and improving corporate earnings potential with the possibility of an economic slowdown, higher inflation, and less favourable monetary policy in 2022.

Forex/Currency - 2021 Returns



Source: TradingView

Liquidity to dwindle

Central bank policies have had a significant influence on global financial markets since the global financial crisis. If one element is clear for 2022, it is the rolling back of ultra-loose monetary policies implemented initially in 2020.

Policy rates have already increased in major emerging market countries to counter rising inflation and steep currency declines. In case of developed economies, Norway and New Zealand have increased rates, while Canada recently ended its bond buying program.

Inflation has played a key role in shaping the Federal Reserve's (Fed) monetary policies. As per the latest data, the Fed has planned three 0.25% rate hikes in 2022, followed by three in 2023 and yet another two in 2024.

This translates to a slightly more than expected 2% tightening over the next three years. The Fed also accelerated the tapering of its bond purchases by USD 30bn, with tapering set to end by March 2022.

The European Central Bank (ECB) has taken a slightly more aggressive approach with it announcing a cut in its bond purchases under its Pandemic Emergency Purchase Program (PEPP).

However, the ECB has allowed itself a certain degree of flexibility to adjust this program in case the situation worsens any further. In this context, it is worth noting that Europe is experiencing much lower levels of inflation than the US so far.

The Bank of England recently hiked rates to 0.25% to counter higher inflation levels. However, some are of the view that the Bank should have assessed the implications of the Omicron Variant on the economy, as the Country at the time reinstated lockdowns.

GLOBAL FIXED INCOME

Tighter liquidity implies higher interest rates and a consequent decline in the relative value of risk assets, and fixed income instruments. However, the extent to which higher rates impact valuations is dependent on the pace and magnitude of the policy shift.

When central banks are haste to tighten policy, the yield curve tends to flatten on expectations that a reduction in credit flow would slow down economic growth. On the other hand, when central banks only gradually tighten policy, the yield curve tends to steepen as it allows inflation pressures to build.

Against this backdrop, leveraged finance assets such as bank loans and high yield bonds, in addition to SME private credit, are the preferred instruments. Collateralized loan obligations (CLOs), owing to their incremental complexity yield premium, are also highly attractive.

Allocation to investment grade credit, with high all-in yields, along with high-quality short-duration securities to balance the former during periods of weakness is also a prudent approach.

The impact of tightening monetary policy

Thus far, the fixed income market's reaction to the withdrawal of stimulus packages by central banks has been quite subdued. This is in sharp contrast to the sell-off witnessed during the 'taper tantrum' of 2013. Emerging-market bonds were expected to underperform as central banks began tightening monetary policies; instead, the best-performing global debt was from all these markets.

According to Bloomberg, sovereign bonds issued by South Africa, China, Indonesia, India and Croatia topped rankings of 46 markets around the world in 2021. They were successful in negating the highest annual jump in U.S. Treasury yields since 2013, a shock that was powerful enough to topple currency carry trades and emerging-market stocks. Though emerging-market bonds as a whole declined 1.3% in 2021, they fared much better than their performance during the 2013 taper tantrum, when the Fed's signal of a cut in asset purchases resulted in a 3.8% decline over the year, including an 11% slump from a high in May to a low three months later.

The positive returns garnered by these five markets should give investors some assurance with regards to the tapering of asset purchases following interest rate hikes which may not lead to a spike in global volatility.

A closer look at their performance shows that the top performers have mostly fallen in price, but coupon returns more than adequately offset these losses. Hence, coupons and interest-rate differentials will play an important role in investment decisions in a tightening environment in 2022. Investing in select emerging-market bonds may be an option to achieve this, as opposed to lengthening duration or going down the credit curve

Is inflation here to stay?

There is no consensus view on the length at which elevated inflation levels will persist beyond 2022. Some believe that a sustained inflation trend is highly unlikely since much of the price increases continue to be on the back of a recovery in demand combined with supply chain disruptions that would eventually resolve towards the end of 2022.

The recovery in demand has been helped by government stimulus packages which would slowly wane in the near term. While additional stimulus measures, in the form of infrastructure spending as economies transition towards net-zero, are likely, their impact on sustainable inflation will be limited.

Furthermore, factors such as an ageing population, declining birth rates, advances in tech, and a global savings glut, are expected to persist going forward, which should in turn help inflation revert to low levels.

GLOBAL FIXED INCOME

However, some are of the view inflation will remain elevated, and this raises concerns on the impact on fixed income asset classes. Three factors that could incrementally push inflation higher include lower and negative real policy rates; unprecedented fiscal stimulus, particularly focused on social equity; and the adoption and execution of environmental, social, and governance (ESG) improvement initiatives.

Company debt ratings are trending positively

At this juncture, corporate earnings are surging. Against this backdrop, around USD 20bn worth of bonds are being upgraded from junk to investment grade every month. Going forward, the Bank of America expects to see a further USD 70bn worth of upgrades next year.

Growing popularity of environmental linked bonds

Environmental, social and governance (ESG) continues to be a growing and important trend in global bond markets. In 2022, we are likely to see a significant rise in the issuance of ESG bonds, especially sustainability-linked bonds and green bonds. In the past, while Europe has largely led the way in the sustainable investment area, interest in the US is slowly picking up. Middle East markets are also increasingly looking at the issuance of green instruments.

Potential opportunities

- Presently, early to mid-cycle fundamentals continue to prevail with investors operating in an environment characterized by higher yield return opportunities, low default rates and robust corporate earnings trends. Given this environment, investor may benefit from taking on additional credit risk exposure relative to government bonds, especially leveraged finance credit such as bank loans as well their hybrid, CLOs, in addition to high yield bonds. The US and Canada markets offer compelling investment opportunity for investment grade credit, particularly in the energy sector which is buoyed by growing oil prices and repayment of debt by oil companies. BB-rated high yield credit across Canada and the US could also be a good instrument to invest in as continued credit rating agency upgrades in 2022 is anticipated to lead to appreciation in bond price. Opportunities also exist in non-qualified mortgage-backed securities backed by the US housing market.

- European credit could offer few areas of opportunity, as Europe remains in the earlier part of the credit cycle with continued support of the ECB. Inflation expectations in the Eurozone are still at levels below the target of the ECB, and a further rise is possible in early 2022. This suggests that Eurozone Inflation-Linked Bonds (ILBs) may have some potential to outperform.

- Global senior loans also offer attractive relative valuations and should benefit from a higher government bond-yield environment, low expected default rates and rising rating upgrades in 2022.

- Investors may also look at private debt markets, which offer incremental yield from illiquidity and small-company premiums.

- A largely improving global outlook provides lucrative valuation opportunities in targeted geographic risk premia in emerging markets Supportive fundamentals make the area of corporate credit in these markets favourable; pockets of opportunities exist in local currency as well. However, uncertainty remains regarding the impact of developments in China, including the ongoing property segment saga and the country's recent policy pivot. The volatile Chinese credit market is yet to show any evidence of a significant impact. However, default forecasts for weaker participants in property and related sectors are increasing as access to external liquidity decreases. ESG risks are expected to assume an increasingly important role in the identification of EM securities that could outperform in a market where traditional credit risk appears fairly valued. In the past, higher ESG ratings have resulted in outperformance.

- 2022 is likely to be a decisive year on the inflation trend going forward. This is expected to be a key driver for fixed income markets. The fixed income market may also witness short-term disruptions in 2022, as central banks remove accommodation and new virus variants may emerge. It is yet to be seen whether the high valuations across risk assets – such high yield bonds – can sustain as monetary stimulus start to wane. However, investors can cash in on these dislocations by adopting a flexible approach to incrementally seize relative value across asset classes, geographies and specific securities.

GCC EQUITY

MENA equity markets continued their positive performance during 2021 with the ADX and Tadawul outperforming other MENA markets, returning 68.2% and 29.8% respectively, during 2021

This bullish stock market activity in the GCC region was helped by improved investor confidence amid robust vaccination roll-out and strong economic recovery backed by rising oil prices. Reform programmes initiated across the ADX and TASI as well as government enterprises drove stock market progress during 2021.

Prospects of a renegotiated Iran nuclear deal, a winding down of the war in Yemen as well as easing of strained ties with Israel also lent growth impetus to the markets.

IPO activity in the GCC gained momentum during 2021 with the listing of several state-owned organisations with the aim to increase market liquidity or raise capital.

Regional stock markets were also supported by a number of regulatory and institutional reforms. Saudi Arabia's NOMU is proving to be a solid platform for smaller companies and other regional bourses are following suit.

First Abu Dhabi and then Dubai announced IPO funds to attract more private businesses to raise capital through equities. Regional regulators are expected to further introduce funding and regulatory support to incentivize private companies to list their shares.

Saudi bourse is leading the IPO frenzy in the region.

The TASI increased 2593 points or 29.73% since the beginning of 2021. Saudi Arabia has performed strongly, led by key sectors including the banking and petrochemicals.

More than 25 listed companies in the exchange rebounded from net losses incurred in 2020 to profit this year, due to the recovery of markets curtailed by the pandemic.

The TASI is currently trading at 19x 2021 earnings - a 22% premium to the last 5-years average valuation. While near-term valuations appear richer, it is believed that the bourse is potentially at the cusp of a multi-year earnings expansion phase.

The Saudi IPOs included Saudi Tadawul Group Holding Company's own listing which was the second largest IPO after Saudi Aramco. The IPO momentum is expected to continue in 2022 with Saudi Capital Market Authority (CMA) having approved listings of companies that would add 70.3 million shares to both TASI and Nomu indexes. CMA has a further 54 listing applications pending — 31 of which are direct listings.

Furthermore, the authority is evaluating whether to allow blank-cheque companies, known as SPACs. A SPAC, or special purpose acquisition company, is formed for the purpose of raising money to buyout a private firm with the intention of taking it public.

This method allows the target to list at a faster pace on an exchange as compared to a traditional IPO. Saudi Arabia led the IPO activity in the region with a total of 14 IPOs during the year.

GCC EQUITY

ADX to gain further traction as listing of private companies is encouraged

The Abu Dhabi stock exchange (ADX) witnessed record trading performance in 2021, with its market capitalisation growing beyond USD 431bn. It was among the best-performing global bourses, with its benchmark index gaining more than 68.2% since the beginning of 2021.

The stellar growth was facilitated by a flurry of IPOs and an exceptional bull run in the shares of International Holdings Company (IHC), a company related to the ruling family. In 2021 alone, IHC's market value expanded by 263 %.

The bourse attracted high-profile listings in the second half of 2021, ending its four-year drought. These including Al Yah Satellite Communications and ADNOC Drilling. In September 2021, ADNOC offered an 11% stake in its drilling business, raising over USD 1.1bn. ADNOC and chemicals firm OCI also raised USD 795mn, the month after, via listing shares of its fertiliser venture Fertiglobe. ADNOC is further weighing an IPO of its marine services, logistics and shipping arm during 2022.

Abu Dhabi Ports Company, which operates ports, industrial cities and free zones in Abu Dhabi, has also concluded its IPO. Emirates Global Aluminium too is considering a potential IPO during 2022. The company may offer between 10% and 20% of its shares valued between USD 16-19bn. IHC, which listed the shares of a few subsidiaries in 2021, is further looking to add IPOs of few more of its subsidiaries including Pure Health.

The resumption of IPO listings has encouraged the emirate to launch a AED 5bn IPO Fund to help encourage and incentivize private companies to list on the local stock market.

Every year, the IPO fund would invest in 5 - 10 private companies, focusing more on small and medium enterprises, and targets to have ticket sizes of between 10 and 40% of the float.

The Abu Dhabi stock exchange is also pursuing 'ADX One' strategy aimed at offering diversification avenues to investors and improving liquidity to create a dynamic capital market. In line with this, it launched a derivatives market in November 2021.

The market would allow trading in single stock futures of Etisalat, First Abu Dhabi Bank, the UAE's largest lender by assets, International Holding Company, Adnoc Distribution and Aldar Properties for now, followed by more securities later this year. It also plans to introduce index futures in the first quarter of 2022 in a bid to expand its range of derivative products.

The laggard DFM has been trailing its peers on account of low investor confidence due to a decline in equity trading, lack of IPOs since 2017 and a recent spate of de-listings (including DP World and Emaar Malls, and Damac).

Selected MENA Indices*

	YTD 2022	2021 return	Market Cap 2020	Market Cap 2021	P/E
MSCI EM Index	-7.0%	-4.6%	22,716	23,337	13.9
Tadawul All Share Index	13.2%	29.8%	2,427	2,669	25.0
Abu Dhabi Market	14.8%	68.2%	204	432	23.1
Dubai Financial Market	9.0%	28.2%	92	111	21.0
Qatar Exchange	17.2%	11.4%	165	186	16.2
Bahrain All Share Index	10.0%	20.6%	25	31	10.0
EGX 30 Index	-5.4%	10.2%	20	26	9.1
Kuwait Premier Market Index	12.6%	26.2%	109	139	21.0
MSX 30 Index	0.1%	12.9%	17	19	11.7

Source: Bloomberg as at 6 March 2022

In order to capitalize on the IPO wave currently engulfing its GCC counterparts, particularly Saudi Arabia and Abu Dhabi, the Emirate has announced a series of initiatives to revive its capital markets.

Dubai government plans

The Dubai government has announced plans to part privatize several government-owned companies in a bid to double its market capitalization to about USD 820bn.

Since the announcement in November 2021, the Dubai index climbed by about a tenth reflecting greater investor confidence. The full schedule of IPOs will be based on market's capacity and demand and will be drawn from various sectors in order to yield balance to the market that has historically been dominated by the real estate and financial services sectors.

As part of the privatization plan, the government is moving ahead with the flotation of the Dubai Electricity and Water Authority (Dewa), looking for a potential valuation of AED 100bn or more, as well as setting up a AED 2bn market-maker fund.

This could be followed by the listing of shares of Tecom, a business parks unit of Dubai Holding and Salik, the road toll system. Emirates, the government's world-renowned airline, along with its subsidiaries dnata (airline's cargo business, ground services arm) and Skywards (its loyalty program) could also be on the list.

Buoyed by the government's efforts, many private companies have also started to look at raising funds through IPOs. Some of these include:

- Stanford Marine Group and NCM Investment – companies owned by Shuaa Capital – could get listed early next year
- Starlink, a private cyber and cloud advisor based in Dubai plans to get listed on Nasdaq Dubai in the first quarter of 2022
- Al Habtoor Group plans to list up to 35% of its shares in an offering in the third quarter of 2022
- Amanat Holdings, the health-care and education investment firm, which has earmarked at least AED 1.5bn for acquisitions next year, announced that some of its portfolio companies could be candidates for stock market listings.

GCC EQUITY

Egypt stock market buoyed by government privatization program

The market capitalization of the Egyptian stock exchange (EGX) rose 10.2% in 2021 as the Egyptian economy recovered from the pandemic. The total value of companies traded on the exchange reached USD 26.3bn vs. USD 20.2bn beginning 2021.

The 49% share sale of Taaleem Management Services, a higher education platform that controls and operates the largest private university in Upper Egypt, Nahda University in BeniSuef, in the first half of 2021, was the first IPO since 2019. This was followed by the technical dual listing of Integrated Diagnostics Holdings (IDH) in May 2021.

The market received a much required boost in October 2021 when the government resumed its privatization program initiated in 2019 wherein it planned to float over 20 stakes of state-owned enterprises across different sectors.

In line with this, it launched the IPO of the fintech company, e-finance. The government also offered an additional 10% stake in AbouKir Fertilizers & Chemical Industries Co. in December 2021. Banque du Caire is likely to be the next in line with an IPO in in 2022. This could be followed by another three or four offerings by state-owned companies.

The tremendous success of the e-finance IPO which witnessed the share price of the company skyrocketing by 50% by the close of first day of trade, is expecting to attract a larger number of IPOs within the fintech space, going forward. A couple of football teams are also mulling raising capital through IPOs in 2022.

Prevailing domestic conditions including the anticipated implementation of the capital gains tax in 2022 and the crackdown on stock manipulation by certain traders, have been working against market performance, especially that of small caps as measured by EGX 70 EWI index.

2022 outlook

Going forward, with the government's reform agenda in place, business dynamics, and local economic rebound driving operational improvements, earnings growth is likely to remain strong, supportive of equity gains in 2022.

The resurgence in IPO activity can widen the reach of corporates to capital and offer expanded investment opportunities to investors. However, the outlook for the region's equities is not without its risks.

The Covid resurgence and its potential impact on travel and the World Cup, as well as rich equity valuations, could have an adverse impact on equities, especially if oil prices correct strongly.

GCC FIXED INCOME

Total fixed income issuances in the GCC totaled USD 145.5bn vs. USD 150.5bn in issuances over the same period in 2020, registering a decline of 3.32% y-o-y. Saudi Arabia and UAE, which witnessed a y-o-y decrease of 3.83% and 14.81% respectively in issuances, remained the primary issuers with issuances of USD 55.2bn and USD 42.6bn respectively, during 2021.

The decline in these two countries were partially offset by an increase in the remaining GCC economies. In terms of instrument type, the share of bond and Sukuk issuance remained largely in line with historical levels. Bond issuances totaled USD 88.9bn or 61% of the total while Sukuk stood at USD 56.6bn (39%).

The year 2022 is expected to witness similar trends with higher issuances from corporate partially offsetting a decrease in issuances from the government

Corporate issuance of USD 77.5bn, having grown 8% y-o-y, outpacing government issuances which declined 15.8% y-o-y to reach USD 68bn. The decrease in government issuances was primarily on the account of better fiscal positioning of regional governments on the back of higher oil prices.

The comparatively low levels of issuances were also due to the absence of pandemic driven financing requirements which saw debt levels peaking to record highs in 2020. On the other hand, corporate issuances rose in the wake of low interest rates, a rebounding economy and new investment opportunities.

The refinancing of bonds and Sukuk accounted for the majority of the issuances by corporates and governments in the region. In addition, governments issued instruments to help tide over fiscal deficits as well.

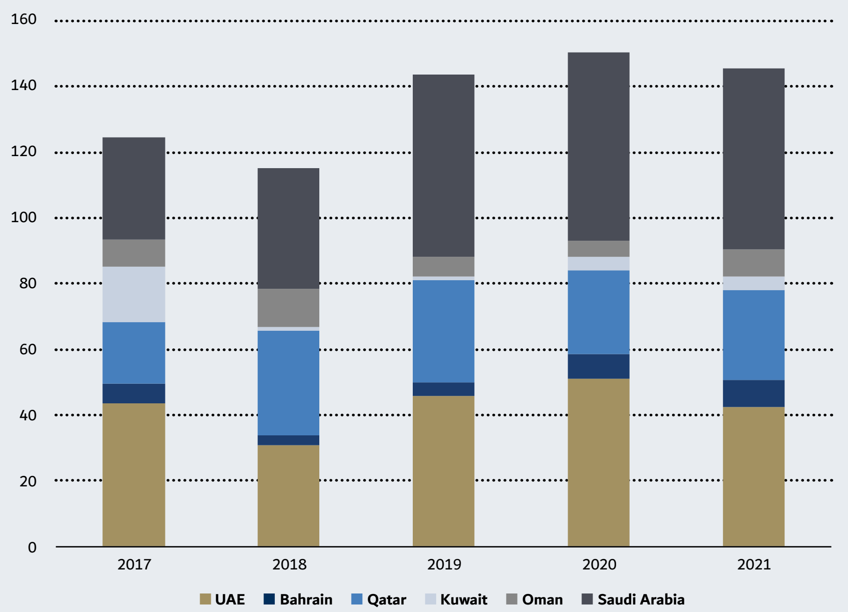
Bond/Sukuk Maturities

GCC governments are expected to see USD 196bn in fixed income maturities over the next five years (2022 - 2026), whereas corporate maturities stand marginally lower at USD 174.6bn.

Approximately 59.1% of these maturities are denominated in US dollars followed by local currency issuances in SAR and QAR at 19.6% and 7.0%, respectively. A larger share of these maturities is in high investment grade or A rated instruments on account of high credit ratings enjoyed by the GCC governments.

In terms of instrument type, conventional bonds constitute a higher share with USD 228.3bn in maturities over the next five years, while sukuk maturities are likely to total USD 142.2bn. Both bond and sukuk maturities are expected to remain at higher levels beginning 2022 until 2026, after which they would gradually decrease over their remaining period.

GCC Fixed Income Primary Market Issuance by Country (USD bn)



Source: Bloomberg

GCC FIXED INCOME

Geographically, Saudi Arabia surpassed the UAE in terms of maturities over the next five years. The country is likely to see maturities worth USD 136.2bn until 2026 followed by the UAE (USD 104.2bn) and Qatar (USD 75.1bn).

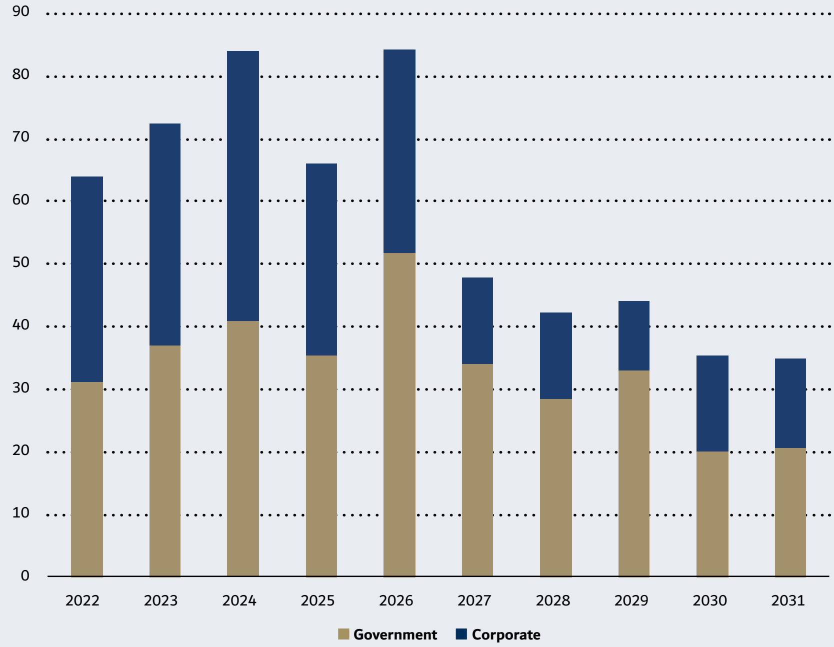
In terms of sectoral break-up, Banks and other Financial Services sector with USD 102.1 Bn in maturities accounts for nearly half of the total corporate maturities. Banks in the UAE have the largest maturities followed by Qatar. Together they constitute over 20% of total bond/sukuk maturities over the next five years. Next in line is the Energy sector (10.1%), followed by Real Estate and Utilities at USD 11.7 Bn and USD 10.7 Bn. respectively. Real Estate maturities are primarily concentrated in the UAE and Saudi Arabia.

The structure of maturities has also gradually changed. Issuances of perpetual instruments grew for the seventh consecutive year in 2021 reaching USD 9.4bn, a year-on-year growth of 46%. ESG compliant or Green instrument issuances remained underwhelming in the region as compared to the developed markets globally. According to Bloomberg data, there were seven green - compliant instruments issued during 2021 with total proceeds of USD 1.3bn compared to four instruments in 2020 with proceeds of USD 2.0bn.

Outlook

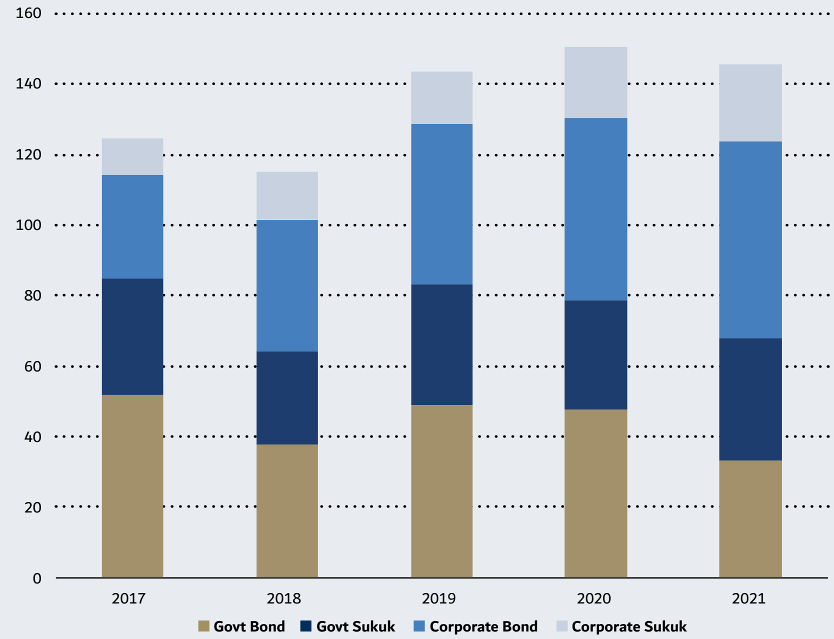
The year 2022 is expected to witness similar trends with higher issuances from corporate partially offsetting a decrease in issuances from the government. As per consensus estimates, GCC government's fiscal deficits are expected to witness a significant reduction in 2022 backed by higher oil prices and a recovering economy.

GCC Bond/ Sukuk Maturities (USD bn)



Source: Bloomberg

GCC Fixed Income Issuance by Type (USD bn)



Source: Bloomberg

GCC FIXED INCOME

Fiscal deficits should narrow in Saudi Arabia, Oman, and Bahrain, and even move to surpluses in the UAE, Qatar, and Kuwait in 2022. This is likely to lead to increased revenues lowering funding deficits for investment purposes.Sustained low interest rates, particularly during the first half of 2022 should prove to be an incentive for corporate as well as governments to advance debt issuances to capitalize on the lower rates.

Pandemic led disruptions put significant pressure on GCC currency pegs against the USD; however, recent trends show stability across all GCC currencies with pressure easing as evident by 12-month forward rates. Currency premiums are also at multi-year lows for most GCC currencies. This was primarily backed by higher oil prices as well as the economic recovery.

Going forward, stable exchange rates should encourage issuers looking at fixed income instruments with maturities up to five years.
Sharp increase in oil prices and rebounding economic activity, aided by rapid vaccination rollouts, supported sovereign credit quality in the GCC region in 2021.

Going forward, as per Moody's, the region's sovereign creditworthiness outlook remains stable over the next 12 to 18 months as higher oil prices and increased hydrocarbon production would enable governments to accelerate economic activity through continued diversification and fiscal reforms.

Saudi Arabia is expected to tap into debt markets for refinancing 2022 maturing debt. UAE, which raised funds at a federal level for the first time is expected to issue more dollar-denominated bonds in 2022. It also plans to explore green bonds and local currency debt.

While overall activity in the fixed income market among other GCC countries is forecast to remain subdued, the sukuk market is expected to uphold its long-term growth trend owing to the entry of new entities (such as Aramco and the Maldivian Government in 2021), low penetration and innovative new Islamic products, such as 'green' Sukuk.

A heightened activity in green Sukuk segment is projected as they look at attracting private capital to low-carbon and climate-resilient infrastructure projects. Saudi Arabia is already issuing these instruments with The Islamic Development Bank, having issued its second tranche under its USD 2.5bn sustainable finance program in March 2021.

REAL ESTATE

Positive growth outlook for global real estate

After the pandemic negatively impacted global property markets, the sector began its recovery Q3 20 as governments rolled out generous stimulus packages, central banks lowered interest rates and pent-up demand increased on the back of accumulated savings.

Recovery continued in 2021 with the sector seeing strong demand for emerging asset classes such as data centres and life sciences. Investments in retail and mixed-use assets increased. The race for space intensified with flexible working conditions increasingly influencing customer choice. Industrial and logistics continued to thrive on the back of a burgeoning e-commerce environment.

Ample liquidity and a low-interest rate environment may not sustain beyond 2022 as central banks turn hawkish to re-align their balance sheets. In the face of rising inflation banks may tighten monetary policy.

However, interest rates are expected to rise only modestly and with a global economy recovering, the environment may continue to be supportive for real estate investments in 2022. However, with the health crisis speeding preexisting trends, it is believed that real estate markets are adapting to altering consumer needs and behaviors.

Sustainability and the impact of the pandemic on occupier behavior would be the two main factors shaping the demand for different types of real estate in 2022.

As the e-commerce landscape witnesses exponential growth, companies are rapidly digitizing their operations and continue to exercise work from home offering, logistics, data centers and communication towers should benefit.

On the other hand, this could prove to be challenging for office and retail space. However, according to a survey by Colliers, quality office assets in major metropolitan markets like London, New York, Tokyo, and Sydney, continue to retain their value with 60% of investors surveyed still seeking core and core-plus office spaces.

According to the same report by Colliers, ESG remains a top priority, with nearly 75% of investors surveyed globally integrating environmental factors into their decision making.

This investment rationale allows investors to future proof their assets, meeting shareholders and societal expectations.

The race for space intensified with flexible working conditions increasingly influencing customer choice Industrial and logistics continued to thrive on the back of a burgeoning e-commerce environment

In addition, the green buildings market segment is expected to accelerate as economies move towards decarbonization.

Investors have adjusted their preferences to the post-pandemic world with apartments overtaking offices. The outlook for residential assets, especially in regions with low supply and inventory levels, remain positive.

REAL ESTATE

2022 expected to be a record year for cross-border real estate investments.

According to Knight Frank's Active Capital research, 2022 is set to witness a resurgence of investment flows into real estate, hitting pre-pandemic levels.

The US, UK, Germany, France and the Netherlands are expected to be top destinations for these investments, with the US, Canada, UK, and Germany expected to be the largest deployers of capital. Asia-Pacific is set to see investment volumes rise by over 30%, with capital primarily flowing from the US, Singapore, Canada, UK, and Germany.

In terms of property type, the office sector is expected to be the prime benefactor accounting for over half of all major cross-border transactions. Residential is forecasted to be the second most invested sector in 2022.

Sources of capital are likely to be broad based, targeting a geographically diverse area, including the US, Germany, the UK, the Netherlands, and Japan. Logistics is another sector which would attract significant investment.

Investment managers and private equity funds, particularly from the US and Canada, are forecasted to remain major players in the industrials market targeting a diverse range of locations including the US, the UK, Germany, France and the Netherlands, as well as Spain, Poland and Australia.

Geographical Outlook

US

A growing US economy is expected to fuel demand for space and increase real estate investment across all property types. It was a record year for commercial real estate investments on high levels of low-cost debt. Investors are likely to look at emerging opportunities in the office and retail sectors in search of better returns. With hybrid work becoming the new normal, office properties with amenities located in prime areas would fare best.

Surging sales-to-square footage ratios and the pandemic-driven shift to the suburbs would favor grocery-anchored and neighborhood centers. With strong returns now being possible, a decade-high level of retail investment volume is anticipated in 2022.

Industrial & logistics remained largely insulated during the pandemic as e-commerce surged. Third-party logistics operators expanding their services to come closer to the consumer will likely be dominant players in the sector.

Europe

Industrial & logistics real estate remained largely insulated during the pandemic as e-commerce surged. Third-party logistics operators, looking to get even closer to the end consumer, remain dominant players in this sector.

It is estimated that remote working would lead to a reduction in office occupancy in Europe by around 15% in the short-term. However, demand for energy efficient offices offering amenities will likely continue. This suggests higher demand for prime properties such as in Amsterdam, Frankfurt, London and Stockholm.

Demand for secondary offices in less affluent areas will likely weaken, where rents are too low justify upgrades beyond regular refurbishment. Robust demand from e-commerce and third-party logistic firms for distribution and warehouse space (including smaller in-fill sites within major metros), would likely to continue to reshape the industrial market.

Growth in residential property prices is at its peak since 2006 as the pandemic had limited impact on the housing market.

REAL ESTATE

Prices are expected to ease however as supply increases and pandemic induced financial support wanes.

Asia-Pacific

Investment volumes are expected to increase by 15% to USD 200bn in 2022, helped by stronger demand for office space, high demand for logistics facilities, and continued growth of alternative sectors such as data centres and life sciences

As e-commerce accelerates, prime logistic capacity is on track to grow by 17%, the fastest pace of annual growth on record, with 20.8m sqm of new supply slated for delivery.

The segment will benefit from sustained demand for warehouse space as business aim to enhance their network resilience and boost local inventory. The hyperscale cloud market, which is projected to expand by 400% from USD 37bn in 2021 to USD 179bn by 2026, would create ongoing demand data centres.

Saudi Arabia

The real estate sector is the second largest contributor to the Kingdom's GDP and drives growth more than 120 economic sectors. The real estate sector is on a transformational path backed by Saudi's Vision 2030.

The recovery in prices was largely driven by government support, in the form of mortgage financing and housing initiatives aiming to increase home ownership to 70% by 2030. Furthermore, these initiatives should support residential property, going forward. on the office property front, operators continue to balance their portfolios between traditional and flexible spaces, while tenants look for higher quality and sustainably built environments.

UAE

It is expected for growth in residential property transactions to sustain through 2022, backed by favorable demographic and economic factors.

Economic initiatives, such as 100% ownership law, residency permits for retirees, and remote workers, and the expansion of the 10-year golden visa program, have also helped improve market sentiment.

Targeted offerings from developers and banks have created attractive financial conditions for buyers. Residential prices are projected to rise in 2022, driven by a recovering economy, supportive economic reforms and an accelerated vaccination program. However, prices may normalize as 50,000 to 60,000 residential are slated for delivery.

Furthermore, e-commerce growth has raised the requirement for storage and fulfillment centers, which is boosting the demand for warehouses.

Listed companies to gain as demand for logistics and residential properties go up

Listed real estate companies are well positioned to gain from market shifts with over 50% having exposure to logistics and self-storage, which are less cyclical, or the residential sector.

It is expected that GCC real estate equity prices are not just pricing in a cyclical recovery from Covid-19, but a wider structural rebound

Overall, listed real estate names are expected to deliver positive mid-single digit returns in 2022. Within listed real estate, the future outlook for the US and the UK markets remains positive. While US companies stand to benefit from their higher exposure to sectors undergoing strong structural growth, UK real estate should gain logistics exposure, which is growing at the fastest pace within the real estate benchmark.

Within the Eurozone, the German residential market (accounting for around 70% of Eurozone listed real estate) though continuing to suffer from a supply shortage, may be negatively impacted by potentially tighter regulations.

GCC real estate equities already pricing in a sustainable recovery

Real estate equity indices in all GCC countries, with the exception of Qatar, witnessed strong double-digit returns in the first half of 2021. The Refinitiv GCC Real Estate Total Return Index gained 22%, while the MSCI GCC index was up 22.6% during the same period.

It is expected that GCC real estate equity prices are not just pricing in a cyclical recovery from Covid-19, but a wider structural rebound. Real estate rents and prices across segments are at various stages of the recovery, and would need significant growth in performance indicators from this point forward to warrant a further rerating in stock prices of developers and REITs.

Going forward, tighter monetary policy, which may trigger short-term volatility in the stock market, would not be enough to dampen investor demand for real estate, globally.

COMMODITIES

Commodities, which had a stellar 2021, are likely to witness robust returns in 2022

Commodities performed strongly throughout 2021 on account of continued pressure on physical commodity markets, as recovering demand strained supply and drove down inventories.

Adverse weather conditions in addition to supply chain disruptions due to export restrictions during the Covid-19 crisis resulting in a number of countries building food strategic reserves, especially wheat, to reduce their import dependency, led to dwindled stocks of agricultural commodities. Consequently, prices soared as demand outstripped supply.

Demand environment in 2022 is likely to remain favourable as there are expectations for sustained above-average global industrial production growth and restocking needs. In the case of agricultural commodities, prices of some of the crops including coffee and sugar may remain elevated as La Niña weather risks build in various parts of the globe.

COMMODITIES

However, overall commodity prices are projected to decline to some extent as the rate of growth eases when services instead of goods become the economic growth driver. Supply is also catching up in various segments, removing some pressure on physical markets. Against this backdrop, return prospects should stay positive but spot contributions may be smaller.

Cyclical commodities to offer better investment opportunities

Strong growth and the likelihood of a somewhat less supportive central bank policy should favor cyclical over defensive commodities. Among cyclicals, demand prospects for base metals are forecast to be robust backed by pent-up consumer spending, government stimulus efforts and the accelerating pace of decarbonization efforts. This surge in demand has come after years of structural underinvestment in the natural resource sector which has resulted in historically low-levels of stocks.

It may take 5-7 years of huge investment to boost supply to meet this rise in demand. While it is anticipated that metals prices would decrease to some extent in 2022 from their current highs as pandemic-related supply issues eases, medium-term supply constraints are setting the stage for historically above-average prices through to 2025.

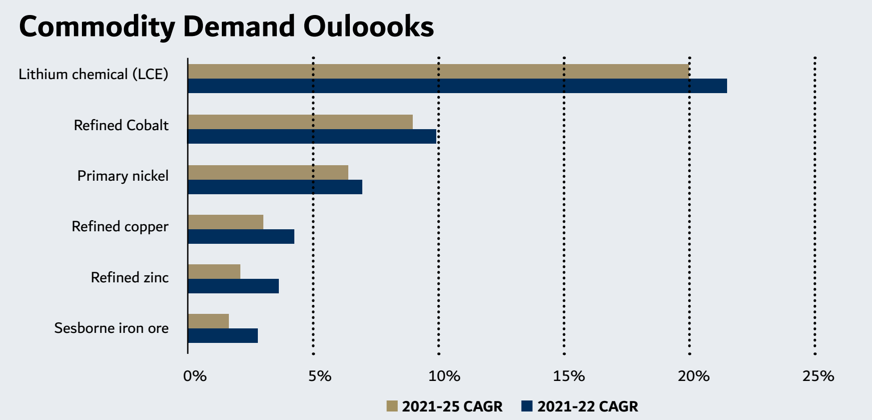
Aluminum is likely to be the best performer next year as it is heading into a period of structural deficits for which there is no quick fix; hence prices are expected to be quite high for this metal.

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Annualised
US Equities 32.6%	REITs 2.8%	Japan Equities 9.9%	High Yield 14.3%	China Equities 54.3%	Cash 1.9%	US Equities 31.6%	China Equities 29.7%	Commodities 38.5%	Commodities 15.8%	US Equities 14.6%
Japan Equities 27.3%	US Equities 13.4%	US Equities 1.3%	Infrastructure 12.4%	EM Equities 37.8%	DM Gov Debt -0.4%	Infrastructure 27%	US Equities 21.4%	REITs 32.5%	Infrastructure 1.5%	REITs 8.4%
Europe Equities 26%	Infrastructure 13%	Emerging Debt 1.2%	US Equities 11.6%	Europe Equities 26.2%	IG Credit -3.5%	Europe Equities 24.6%	EM Equities 18.7%	US Equities 27%	Cash 0%	Infrastructure 7.2%
Infrastructure 15%	China Equities 8.3%	REITs 0.6%	EM Equities 11.6%	Japan Equities 24.4%	High Yield -4.1%	REITs 24.5%	Japan Equities 14.9%	Europe Equities 17%	DM Gov Debt -2.8%	Japan Equities 7%
High Yield 7.3%	Emerging Debt 5.5%	Cash 0.1%	Emerging Debt 10.2%	US Equities 21.9%	US Equities -4.5%	China Equities 23.7%	IG Credit 10.1%	Infrastructure 11.9%	EM Equities -4.8%	Europe Equities 6.8%
China Equities 4%	IG Credit 2.5%	Europe Equities -2.3%	Commodities 9.7%	Infrastructure 20.1%	Emerging Debt -4.6%	Japan Equities 20.1%	DM Gov Debt 9.5%	Japan Equities 2%	High Yield -4.9%	High Yield 5%
REITs 2.8%	Cash 0.1%	High Yield -2.7%	REITs 6.9%	High Yield 10.4%	REITs -4.8%	EM Equities 18.9%	High Yield 7%	High Yield 1	IG Credit -5%	China Equities 4.9%
IG Credit 1.8%	High Yield 0%	DM Gov Debt -3.3%	IG Credit 6%	Emerging Debt 9.3%	Infrastructure -9.5%	Emerging Debt 14.4%	Europe Equities 5.9%	Cash 0%	Japan Equities -6.1%	EM Equities 3.6%
Cash 0.1%	DM Gov Debt -0.8%	IG Credit -3.8%	Japan Equities 2.7%	IG Credit 9.3%	Commodities -10.7%	High Yield 12.6%	Emerging Debt 5.9%	Emerging Debt -1.5%	China Equities -6.7%	Emerging Debt 3.6%
EM Equities -2.3%	EM Equities -1.8%	China Equities -7.6%	DM Gov Debt 1.7%	REITs 8.6%	Japan Equities -12.6%	IG Credit 11.8%	Cash 0.7%	IG Credit -2.1%	Europe Equities -7.2%	IG Credit 3.3%
DM Gov Debt -4.3%	Japan Equities -3.7%	Infrastructure -11.5%	China Equities 1.1%	DM Gov Debt 7.3%	EM Equities -14.2%	Commodities 11.8%	Infrastructure -5.8%	EM Equities -2.2%	Emerging Debt -8.2%	DM Gov Debt -0.6%
Commodities -5%	Europe Equities -5.7%	EM Equities -14.6%	Cash 0.4%	Commodities 1.7%	Europe Equities -14.3%	DM Gov Debt 5.6%	REITs -8.1%	DM Gov Debt -6.6%	US Equities -8.4%	Cash 0.6%
Emerging Debt -6.6%	Commodities -17.9%	Commodities -23.4%	Europe Equities 0.2%	Cash 0.8%	China Equities -18.7%	Cash 2.3%	Commodities -9.3%	China Equities -21.6%	REITs -8.7%	Commodities -1.2%

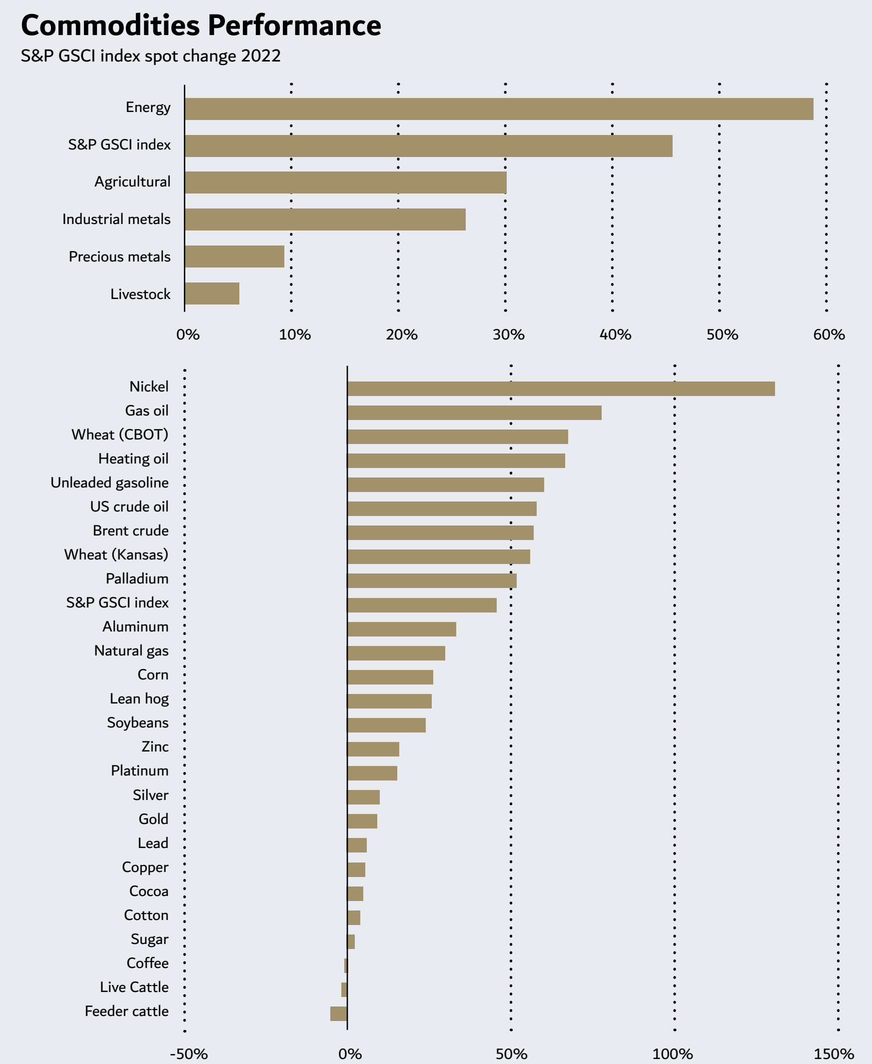
Key: **Equities** **Bonds** **Private Markets, Commodities**

Source: BlackRock as at 28 Feb 2022

COMMODITIES



Source: S&P Global Market Intelligence



Source: Reuters as at 6 March 2022

Strong growth and the likelihood of a somewhat less supportive central bank policy should favour cyclical over defensive commodities. Among cyclicals, demand prospects for base metals are forecast to be robust backed by pent-up consumer spending, government stimulus efforts and the accelerating pace of decarbonization efforts.

This surge in demand has come after years of structural underinvestment in the natural resource sector which has resulted in historically low-levels of stocks. It may take 5-7 years of huge investment to boost supply to meet this rise in demand.

Oil is expected to experience strong supply growth from both non-OPEC nations as well as a further easing in OPEC+ supply.

Together this should push the global oil market back into surplus, thus arresting further price hikes. However, worries over OPEC capacity and a general lack of investment in upstream production (capital investments by major integrated oil and gas companies went down by 52% between 2013 and 2020) would ensure that prices remain elevated in the medium term.

The European gas market is likely to remain tight through winter, which would translate to increased volatility over the coming months. The end of the heating season is expected to usher in lowered prices.

COMMODITIES

Following the recent massive gains in carbon markets, there is room for prices to consolidate in the short term. However, over the longer-term, prices would go up if decarbonisation efforts pick up pace.

Precious metals are likely to face a challenging year amid tightened interest rates and a strengthening USD strength leading to a decline in demand.

With mainstream investors supporting the narrative that the economy would continue to recover instead of entering into a period of stagflation, the demand for prospects for precious metals are likely to remain dim.

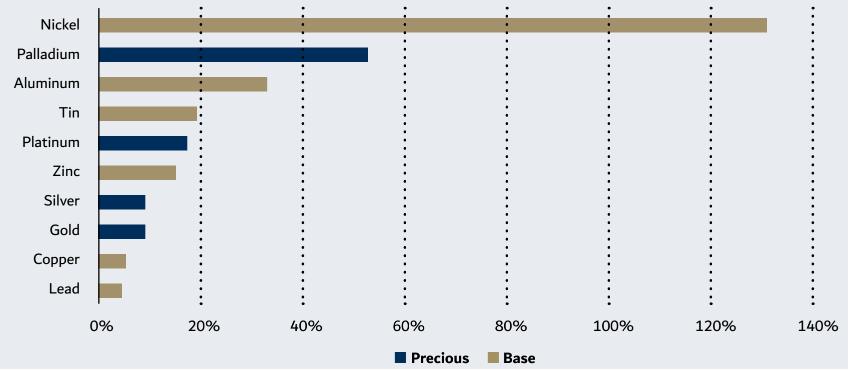
Still a good inflation hedge

Over the last three decades, commodities have had a statistically significant and largely consistent positive inflation beta, or predicted reaction to a unit of inflation.

In a portfolio context, commodities exposure where investors have strategic allocations provides diversification and an effective hedge against inflation surprises. Given the divided view over the persistence of inflation in 2022, investment in commodities could prove to an effective investment tool to tide over inflationary conditions.

Over the last three decades, commodities have had a statistically significant and largely consistent positive inflation beta, or predicted reaction to a unit of inflation

Metals Price Performance 2022



Source: Reuters as at 6 March 2022

COMMODITIES

Multiple macro headwinds could limit further upside for the commodity markets

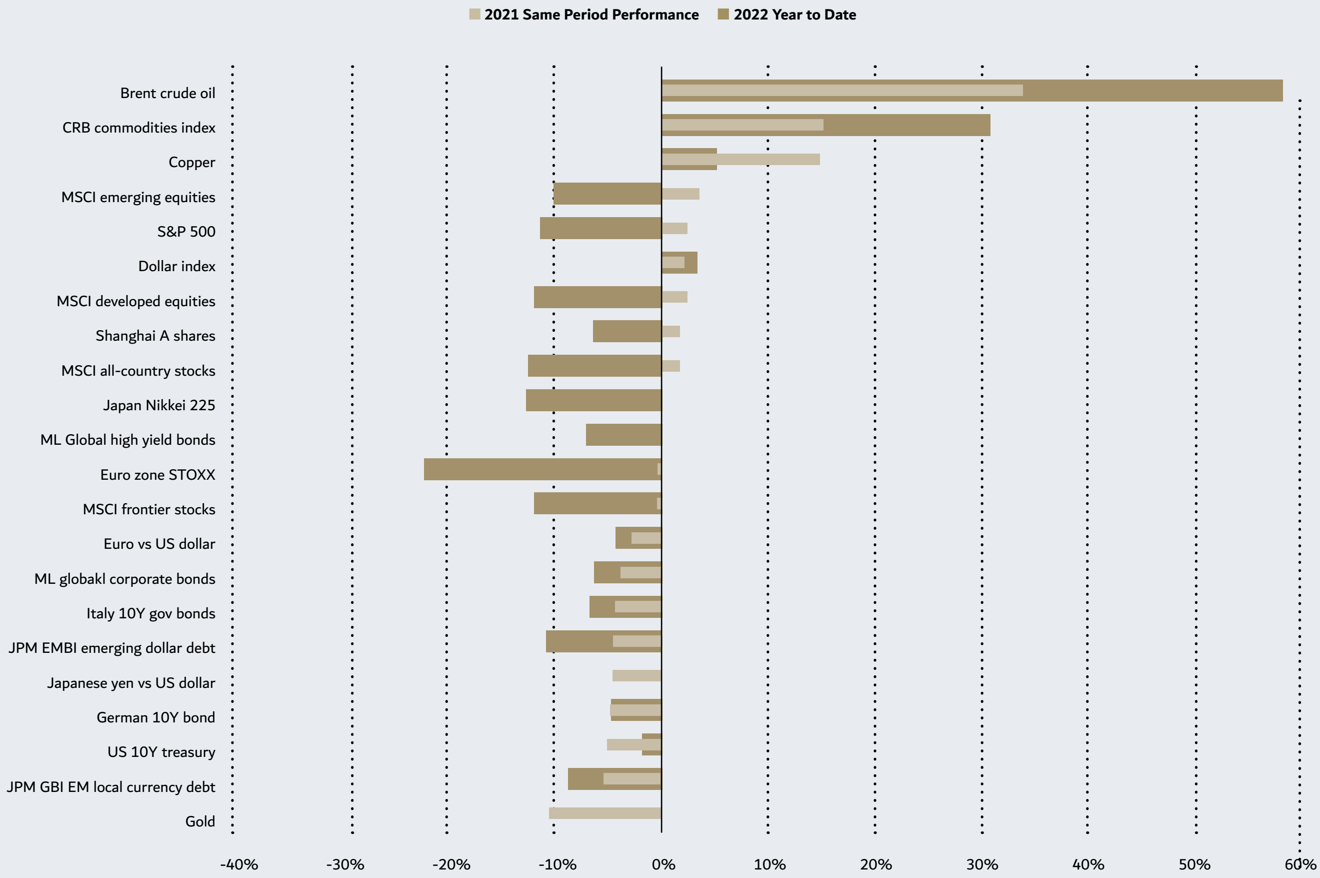
Tightening of monetary policy by the central banks over the course of 2022 as well as the strengthening of US Dollar, could have a negative impact on the performance of commodity markets.

The ongoing slowdown of the Chinese economy and the recent issues with Evergrande negatively impacting the commodity guzzler real estate sector, could impede demand and consequently put downward pressure on commodity prices, particularly for metals.

However, the risk of this happening is appearing to less likely as the Chinese government is becoming a little more accommodative in its policymaking. Finally, the energy transition is a big challenge (and opportunity) that may result in increased volatility in the short term.

Tightening of monetary policy by the central banks over the course of 2022 as well as the strengthening of US Dollar, could have a negative impact on the performance of commodity markets

2022 Asset Performance



Source: Reuters as at 6 March 2022

CRYPTOCURRENCIES

2021 has been a record year for Cryptocurrencies

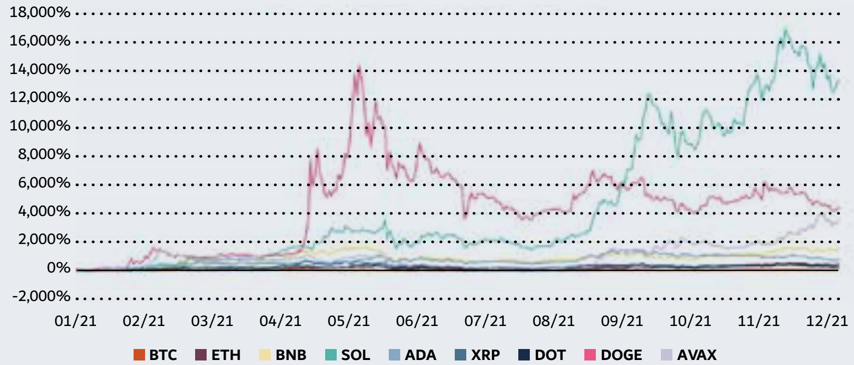
Bitcoin broke its previous all-time high to reach nearly USD 67k, during 2021, up ~100% in 2021. The clear market leader added roughly USD 545bn to its market capitalization, vs. Gold: -2.5%, S&P500: 26%, and Nasdaq: 31% in 2021. The total crypto market capitalization in 2021 also reached a record USD 3tr after recrossing USD 1tr in January and USD 2tr in May.

In 2021, two major layer-1 platforms, Solana and Avalanche, witnessed astronomical returns on their native tokens, SOL and AVAX, of over 12,000% and 4,000% respectively. Meanwhile, the prices of Dogecoin and ShibaInu Cryptocurrencies, DOGE and SHIB, have grown by more than 4,000% and 63,200,000% respectively. That implies, a USD 100 purchase of SHIB in January would be worth USD 63m by year-end.

In 2022, Russia/Ukraine had its impact on Cryptocurrencies as well as we saw Bitcoin falling below the USD40,000 level and the volatility increased significantly.

We might see more regulation on the back of news that financial sanction on Russia might spur it to move towards Cryptocurrencies as medium of financial transactions.

Return of Top 10 Cryptocurrencies in 2021



Source: CoinGecko

Stablecoins continue to find broader institutional acceptance. The aggregate stablecoin supply has grown by 388% – from USD 29bn to over USD 140bn, a record high. As per CoinMetric, annual stablecoin adjusted transaction volumes crossed USD 5tr in 2021, an over 370% year-over-year growth relative to 2020 volumes.

DeFi

One of the dominant investment trends in 2020 was the influx of capital to DeFi applications, and that carried over into the first half of 2021.

Companies and applications are being built on smart contract platforms like Ethereum and other Layer-1 networks with the goal of achieving a decentralized financial system that provides better transparency and offers composability between different applications.

For virtually any type of financial service, developers somewhere are trying to turn it into a decentralized protocol, whether it's trading, execution, lending, derivatives, lending, event prediction, etc

NFTs/Gaming

The growth in usage of NFTs and the enormous price appreciation of certain collectibles have led to an influx of private investors, analogous to what occurred in the DeFi vertical. NFTs can potentially provide new ways for content creators to monetize their work, often through social tokens, digital art pieces, collectibles, or in-game items.

In addition, NFTs may look to disrupt other areas, including ticketing, monetization, music, domain names, and fashion/luxury goods.

CRYPTOCURRENCIES

Year to date, the NFTs/Gaming vertical within the crypto sector has received the third most in private funding, receiving nearly USD 5.0bn in venture funding. The total NFT trading volume was USD 8.8bn with Art and Collectibles contributing 59% and gaming NFTs comprising 41% of the volume

Web 3

In addition to DeFi and NFTs/Gaming, one of the most popular investment trends has been towards projects that would be classified as Web3. These projects would work on identity, data management, ownership, monetization and storage, as well as would be community-owned and operated by organizations enabled by blockchain technologies.

Is Crypto set to become mainstream?

The digital asset sector sustained its bull cycle into 2021, supported by a number of external macroeconomic catalysts, along with mainstream and institutional involvement targeting different parts of the industry.

Legal Tender

El Salvador became the first mover in making bitcoin its legal tender. El Salvador President NayibBukele signed the bill into law in June. While Mr. Bukele cited low rates of financial inclusion as a driver for his decision, the World Bank rejected El Salvador's request to implement bitcoin as legal tender and the IMF went out of its way to comment that the move raises "macroeconomic, financial and legal issues".

Companies rush to add bitcoin to their balance sheets

After bitcoin reached record highs in the last weeks of 2020, an array of companies began allocating to kick off the new year of 2021. Tesla, SpaceX, Square, Microstrategy, and Patent Group are some of the institutions that allocated some of their balance sheet to bitcoin.

Battle with regulations

Cryptocurrency market is the focal point of the regulators around the world. As many regulators throughout the world struggle to incorporate crypto into existing regulatory frameworks, some have moved to ban crypto-related activities outright. Among these, China took center stage in 2021 by moving to ban crypto mining in the summer, a move they soon followed with a comprehensive ban of cryptocurrency transactions in the fall.

Despite China's strong sentiment against bitcoin, it marched along quickly with trials of its digital currency, the Digital Yuan. After beginning the initial experiments in 2020, the People's Bank of China (PBOC) increased the number of provinces trialing out the new platform for domestic use in April. Additionally, that same month, the PBOC joined the BIS's Multiple CBDC Bridge, which tested cross-currency transfers across China, Singapore, Hong Kong and Thailand.

The United States has officially become the largest hub for Bitcoin mining operations and businesses. As a result of China's mining ban in June 2021, Foundry USA Pool has risen to become the second largest Bitcoin mining pool.

Disclaimer