

MENA MARKETS REVIEW ISSUE 035

SEPTEMBER 2019

HIGHLIGHTS

- Global Markets took what seems to be a brief break from trade tensions during September and received a welcomed boost from both the Fed and the ECB. The Fed cut its target rate by 25 bps while the ECB resumed its accommodative policy cutting rates by 10 bps and resuming its bond buying program.
- The MSCI AC World Index advanced by 1.91% in September, while the MSCI EM Index slightly underperformed with an increase of 1.69%. For the third quarter, both indices are down 0.53% and 5.11% respectively
- Markets were soon interrupted by serious concerns about the growth in the US economy after the manufacturing numbers showed significant weakness as the ISM manufacturing index dropped to its lowest level since June 2009 at 47.8.
- GCC markets were largely negative following the attacks on Aramco. The S&P GCC Composite declined by 1.21% weighed down by Kuwait and Abu Dhabi, while Saudi Arabia witnessed a consistent rebound which allowed the index to close the month of September in the green.

US MANUFACTURING WEAKENS, BUT JOBS MARKET STRONG

In the US, there has been more evidence that economic activity is softening. Most alarming was the manufacturing ISM index, which dropped even further into negative territory at 47.1 in September, and a 10-year low amid heavily contracting export orders and trade pessimism. But also concerning was the decline in the non-manufacturing equivalent to a three-year low of 52.6. Meanwhile, the jobs market remains strong, underpinning still reasonable growth in consumer spending. Non-farm payrolls rose a decent 136,000 in September and the unemployment rate fell to a 50-year low of 3.5%. One concern is that the labor market is a lagging indicator, and that slower business activity will eventually generate cracks in the jobs market that cause the consumer sector to buckle; indeed, the pace of hiring has already slowed from the average of 223,000 per month recorded last year. But at the same time, slower jobs growth need not be a sign of economic weakness if it reflects an economy close to full employment.

Against this uncertain outlook, the Federal Reserve as expected cut interest rates by 25 bps in September – the second cut of the year – leaving the Fed Funds target range at 1.75-2.00%. The move was however interpreted as somewhat ‘hawkish’, with two out of 10 members voting for no cut (though one supported a larger 50 bps reduction), and the bank’s ‘dot plot’ projections pointing to no further rate cuts in 2019-20. It also left its forecasts for growth and inflation next year, at 2.0% and 1.9% respectively, unchanged, implying no strong need for further policy action. Markets however continue to take a different view, pricing in an 85% chance of at least one further cut by end year (probably October).

The Fed has also been tackling a sudden and unexplained liquidity shortage in the money markets, which saw interbank interest rates temporarily spike in mid-September and resulted in the bank offering emergency short-term loans. These injections – which could be made more permanent – have seen the Fed’s

balance sheet record its first meaningful rise since it halted its quantitative easing program in 2014, with some analysts dubbing it ‘QE lite’.

MANUFACTURING GLOOM DEEPENS AMID ECB POLICY CLASH

News on the Eurozone economy has become more downbeat, with manufacturing in decline in most of the region and growing signs of spillover effects on the until recently more upbeat service sector. Germany’s manufacturing PMI plunged to a 10-year low of 41.7 in September amid investment cuts and accelerated job losses on the back of slower trade and Brexit-related uncertainty. The broader composite PMI at 48.5, saw its first sub-50 reading since 2013 and points to a decline in GDP in Q3 that would put the economy in recession following a 0.1% q/q contraction in Q2. Equivalent results for the Eurozone as a whole (50.1) point to economic stagnation at the end of Q3, presenting the risk of a fall into recession if momentum continues to weaken going forward.

Despite this worrying outlook, a degree of opposition surrounded the ECB’s loosening of monetary policy in September. The bank announced a package of easing policies, cutting the deposit rate to -0.5% and restarting its asset purchase program from November. The move drew rare public criticism from some current and former ECB officials, who see ‘ultra-loose’ policy as threatening financial stability, a backdoor attempt to finance highly indebted governments and also unjustified in the absence of a clear deflationary threat. The controversy could set the stage for a battle when Christine Lagarde replaces Mario Draghi as ECB president in November. This is important, as the bank’s perceived commitment to looser policy could be key in transmitting its effects through the markets.

In the UK, PM Boris Johnson’s suspension of parliament was ruled unlawful by the Supreme Court, resulting in MPs returning to the legislature. Before leaving, MPs had already passed a law forcing Johnson to request a three-month extension to the current

end-October Brexit deadline, should a deal not be agreed with the EU by mid-October. Johnson's proposed deal – with new arrangements to address the sensitive Irish border issue – drew a frosty response from the EU yet he continues to insist that the UK will leave the EU with or without a deal in October. The EU are likely calculating that the UK will indeed be forced to request an extension, and that a new, more pro-EU government may be elected in a general election. Despite the uncertainty, UK GDP surprisingly rose 0.3% m/m in July following a decline of 0.2% q/q in Q2, thereby reducing the risk of a recession in the near term. However, the services PMI fell back into contraction territory in September with job shedding at its fastest since 2010.

JAPAN MOVES AHEAD WITH SALES TAX HIKE

After delaying twice, Japan decided to stick with its decision to raise its sales tax from 8% to 10% this month – a move aimed at improving its weak public finances – even as growth concerns persist. Indeed, the economy slowed more than initial estimates suggested in Q2 after annualized growth was revised down from 1.8% to 1.3%. The economy continues to face headwinds from weaker global growth and the ongoing trade war between the US and China, which have weighed heavily on Japan's external sector. Exports fell for the ninth consecutive month in August (-8.2% y/y), while imports declined for the fourth straight month (-11.9%) reflecting ongoing softness in the domestic economy. While the Bank of Japan stood pat on monetary policy last month, it reportedly discussed the possibility of unleashing further stimulus measures in the near-to-medium term to prop up the economy.

CHINA CUTS RESERVE RATIO, MORE STIMULUS COULD FOLLOW

China cut its required bank reserve ratio by 50 basis points, the third cut this year, in a bid to prop up growth weighed down by trade tensions with the US and a softer global economy. Indeed, further stimulus measures are likely going forward. Chinese exports witnessed a surprise decline in August, falling by 1%

while imports fell for the fourth straight month, reflecting the ongoing weakness in the domestic economy as well. Meanwhile, PMI manufacturing data for September was mixed. While the official PMI series pointed to a continued contraction in the manufacturing sector, private PMI data pointed to a better-than-expected improvement, which might in part be attributed to pro-growth reforms announced by the government over the past couple of months. Separately, the depreciation in the yuan went into mild reverse through September, with the central rate finishing the month up 0.2% at RMB7.07/US\$1 ahead of the restart of US-China trade talks.

GCC DEVELOPMENTS

It was a mixed bag in terms of economic indicators for the GCC in September. The PMI for Saudi Arabia showed private sector activity continuing to gain traction, improving for the third month in a row to 57.3 on gains in output and new orders. Official data meanwhile showed Saudi non-oil GDP growth of 2.9% y/y in 2Q19 (from 2.1% in 1Q19). By contrast, the UAE PMI continued to ease at 51.1 in September from 51.6 in August, amid weakening domestic demand. Meanwhile Bahrain's fiscal deficit narrowed by 38% y/y in 1H19 to 3.4% of GDP, on the back of cost-cutting measures and revenue-boosting reforms, including the addition of VAT, under the Fiscal Balance Program. Earlier in September, central banks in Saudi, the UAE and Qatar followed the US Federal Reserve in cutting their benchmark interest rates by 25 bps. Taking advantage of lower rates, GCC bond issuance proceeded apace in September: Abu Dhabi issued \$10 billion and Bahrain sold \$2 billion worth of conventional/Islamic bonds.

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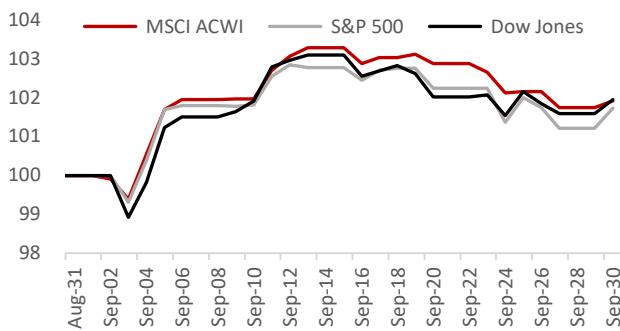
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GLOBAL EQUITIES

Global Markets recovered in tandem during September on hopes that at least an interim trade deal between the US and China would be reached amid de-escalation between the two countries. Markets were also supported by accommodative moves from both the ECB and the Fed as both central banks cut rates in mid-September. The MSCI AC World Index advanced by 1.91% during the month but was still down 0.53% for the third quarter. Similarly, the MSCI EM index recorded a monthly advance of 1.69% while remaining negative for the quarter at 5.11%.

Chart 1: MSCI ACWI, S&P 500 & Dow Jones



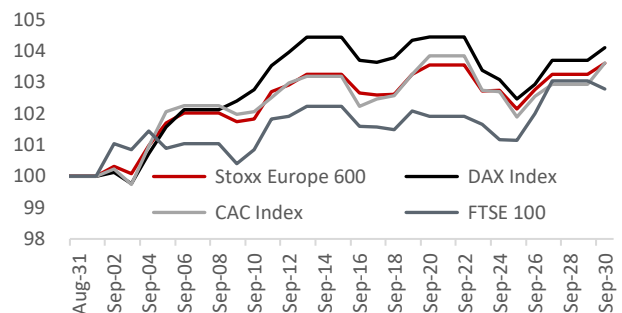
Source: Bloomberg (figures rebased)

Trade tensions remain the most potent market mover especially that their effect on both the global and US economies is starting to become increasingly visible. The third estimate of the US GDP for the second quarter was stable at 2.0%, the markets, however, were surprised by a sudden drop in manufacturing activity for September. The ISM Manufacturing PMI slid to 47.8 in September from 49.1 for the previous month, compared to a consensus estimate of it increasing to 50.1. This makes it the lowest reading for the manufacturing activity gauge since June 2009, when the recession following the global financial crisis ended. During the month, the Fed cut its target rate by 25 basis points to a range of 1.75% to 2.0% citing implications of global development for the economic outlook and muted inflation pressures. Indeed, inflation is still below the 2.0% symmetrical target of the Fed, despite a slight rebound in Core Personal Consumption Expenditures (PCE) in August which

brought it up to 1.80% from a revised reading of 1.70% in July (revised up from 1.60%).

Major US Indices closed in the green for September but below their mid-month high. The S&P 500 and the Dow Industrial Average (DJI) were up 1.72% and 1.95% respectively to close the third quarter with narrow gains of 1.2% for each. The Nasdaq, however, was barely positive for September at 0.46% after declining by close to 2.4% from its intra-month closing high of 8,194.47. For the quarter, the index performance was negative at -0.09%. In the Treasury market, the 10-year yield recovered strongly during the first two weeks of the month in the run-up to the FOMC decision and reached a high of 1.90% on September 13, only to retreat back to 1.68% by month-end. Similarly, the 2-year yield climbed from 1.50% at the end of August to intra-month high of 1.79% before retreating back to 1.56% as at the end of September.

Chart 2: European and UK Equities



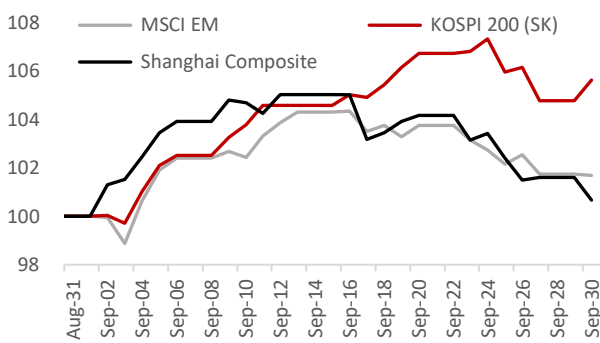
Source: Bloomberg (figures rebased)

In Europe, the ECB returned to stimulus with a 10 basis points cut that took its interest rates deeper into negative territory at -0.5%. The ECB further announced that it would restart its bond and other financial instruments purchasing program to the tune of €20 billion per month starting November. The central bank attributed the slowdown in Europe to the prevailing weakness of international trade and an environment of prolonged global uncertainty. The ECB cut its European GDP forecast for 2019 to 1.1% from 1.2% and for 2020 from 1.4% to 1.2%. European manufacturing activity deteriorated further during September with the Markit Manufacturing PMI slipping to 45.7 in September down from 47.0 in August. Weakness in the German

economy weight down significantly. The German Markit manufacturing PMI surprised on the downside, declining to 41.7 in September against expectations of 44.0. German GDP had contracted by 0.1% for the second quarter down from 0.4% for the first quarter of 2019. In the meantime, European capital markets fared well during the month. The Stoxx Europe 600 was up 3.6% to close the quarter at a positive 2.15%. The German DAX and French CAC40 added 4.09% and 3.60% respectively to close the quarter at a slightly positive 0.24% for the DAX and 2.51% for the CAC40.

Markets in the UK followed the general global trend with the FTSE 100 Index gaining 2.79%, which was not enough to offset last month's steep losses causing the index to close the third quarter in the red at -0.23%. The Gfk Consumer Confidence Index improved marginally but was still deep in negative territory in September at -12. Inflation surprised on the downside as the CPI dropped to 1.70% year-on-year in August down from 2.1% in July. Manufacturing activity, on the other hand, showed a slight improvement as the Markit Manufacturing PMI for September recorded 48.3 up from 47.4 in August while it was expected to drop further to 47.0.

Chart 3: MSCI EM vs South Korea vs China



Source: Bloomberg (figures rebased)

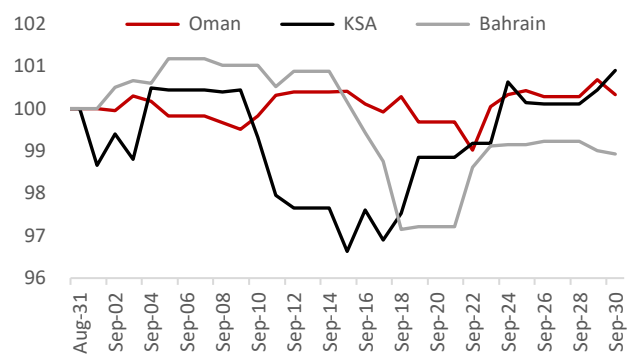
Emerging markets performance was mixed while slightly underperforming global peers. The MSCI EM index added 1.69%, while the MSCI Asia-ex-Japan index added 1.44%. They are both still negative for the quarter though at 5.11% and 5.34% respectively. Notable gainers in the EM space included Turkey's Borsa Istanbul 100 index with an 8.60% advance and India's Nifty50 index with 4.09%. They were followed

by Brazil's Ibovespa Index which added 3.57% and Taiwan Stock Exchange with a gain of 1.99%.

REGIONAL EQUITIES

Oil markets faced extreme volatility during the aftermath of the Aramco attack driven by fears by long term supply disruptions. Brent jumped by 15% on the first day of trading after the attacks to reach USD 69/bbl up from USD 60. The spike in volatility proved to be short lived after fears of further escalation faded and the Saudi authorities assured markets that production would be restored to its previous levels in a relatively short period of time. Brent ended the month up 0.58% at USD 60.78/bbl, while WTI declined by 1.87% to USD 54.07/bbl mainly driven by weak demand estimates driven by a decelerating global economy.

Chart 4: Performance of Oman, KSA, & Bahrain



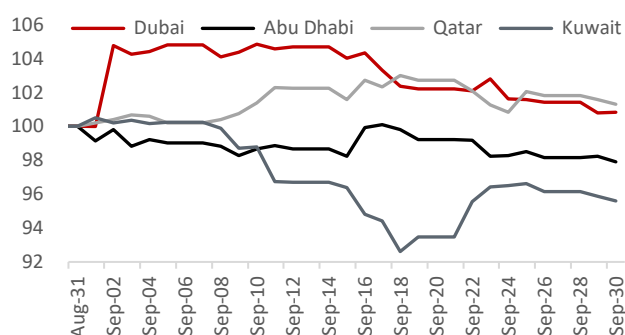
Source: Bloomberg (figures rebased)

Markets in the GCC had a choppy month that was overshadowed by the September 14 attacks on the Aramco oil facilities in Saudi Arabia. The S&P GCC Index declined by 1.20% by month-end to close its third quarter at a loss of 6.78%. The index was down as much as 2.88% in mid-September before recovering steadily through month-end. It fell short, however, of closing in the green despite a strong rebound in Saudi equities, as it was weighed down by a negative performance in both Kuwait and Abu Dhabi.

The Saudi market index, which was down as much 3.4% after the attacks, managed to recover all of its losses during the second half of the month. The market was helped by the diminishing fears of an escalation and assurances that the effects of the attacks on the Saudi

economy were negligible. The Tadawul All Share Index closed the month up 0.90% but was still significantly negative for the quarter at -8.27%. On the economic front, Saudi GDP recorded a growth rate of 0.46% in the second quarter compared to the same quarter last year according to official statistics. While the oil sector retreated by 3.0% pressured by the production cuts implemented under the OPEC+ agreement, the non-oil sector managed to achieve a solid 2.9% growth over the same period, as the private sector recorded a 3.4% growth, while the government sector grew by 1.76%.

Chart 5: Performance of Dubai, Abu Dhabi, Qatar & Kuwait



Source: Bloomberg (figures rebased)

Following the Federal Reserve decision to cut its target rate by 25 basis points in September, the Saudi Arabian Monetary Authority (SAMA) and the central banks of the UAE and Qatar reduced their benchmark rates by a 0.25 percentage, while Kuwait, Oman, and Bahrain kept their benchmark rates unchanged.

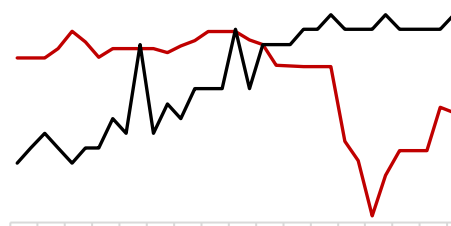
Kuwait's All Share index was suffered heavy losses for the second consecutive month on profit taking bringing its third quarter performance to a negative 2.63% after declining by 4.42% in September. The blue-chip Premier Index declined by 5.41% in September bringing its third quarter decline to 3.17%. Both indices, however, are still positive on year-to-date basis at 11.80% and 17.23% respectively.

In the UAE the picture was mixed with the Abu Dhabi ADX General Index down 2.10% for the month, against a moderate gain of 0.81% for Dubai's DFM General Index. Both indices maintained their positive performance for the third quarter at 1.55% and 4.61% respectively. According to the central bank of the UAE,

the country's economy is expected to grow by 2.4% in 2019 supported by an acceleration in the oil sector. The oil component of GDP is expected to grow by 5.0% in 2019, up from 2.8% during 2018. The non-oil sector is expected to see a 1.4% growth during the year.

In Oman's real GDP growth is expected to remain slow in 2019 at 1.6% mainly due to flat oil production resulting from the OPEC+ production cuts. Moody's expected the economy to start picking up in 2020 with a GDP growth of 2.7% supported by the completion of major infrastructure projects. Oman's MSM 30 Index managed to close in positive territory albeit with a marginal gain of 0.32% adding to its positive quarterly return of 3.42% as at the end of Q3 2019.

Chart 6: EGX 30 Index & EGP/USD



Source: Bloomberg

The S&P Pan Arab Index slightly outperformed its GCC peers despite its negative performance of 0.93% in September. On top of the weak performance of GCC markets, the index was weighed down by a 3.89% decline in Egypt's EGX30 as political tensions escalated towards the end of September.

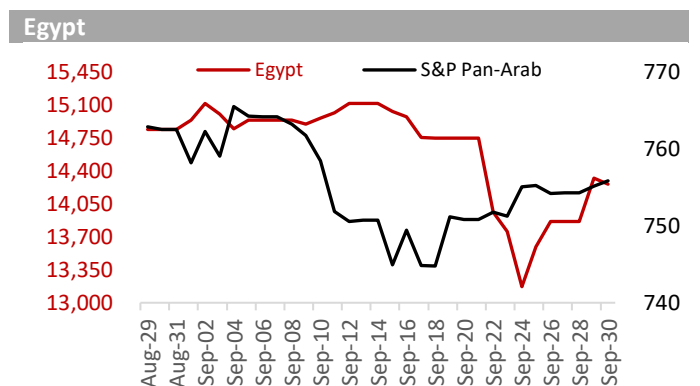
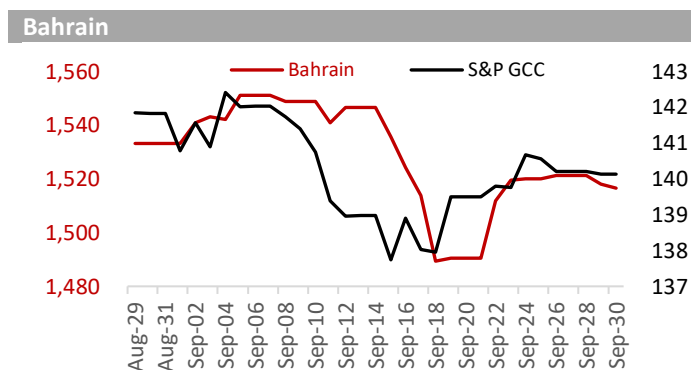
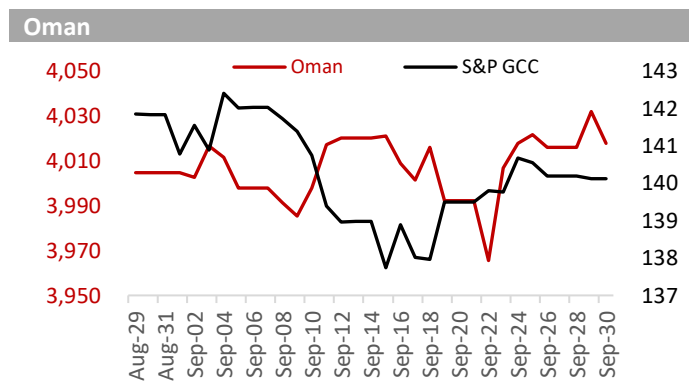
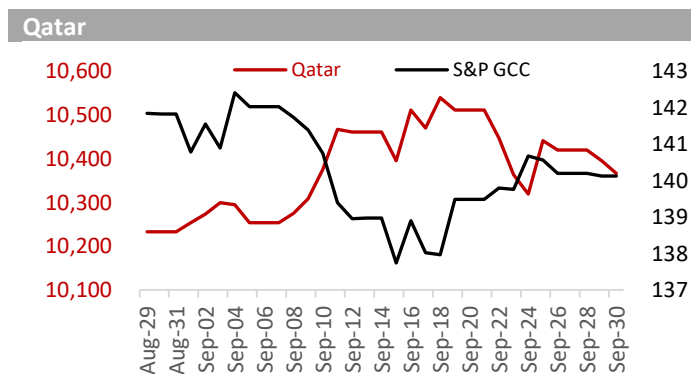
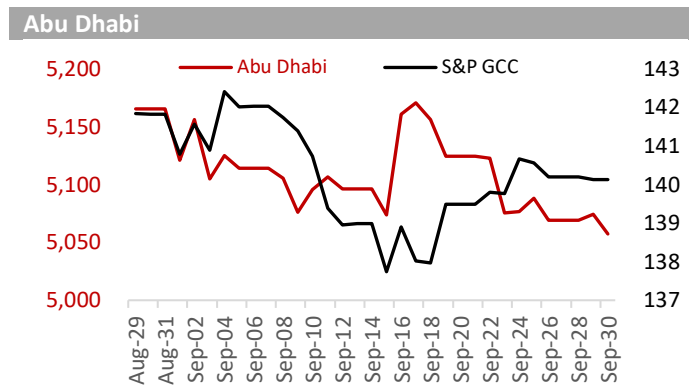
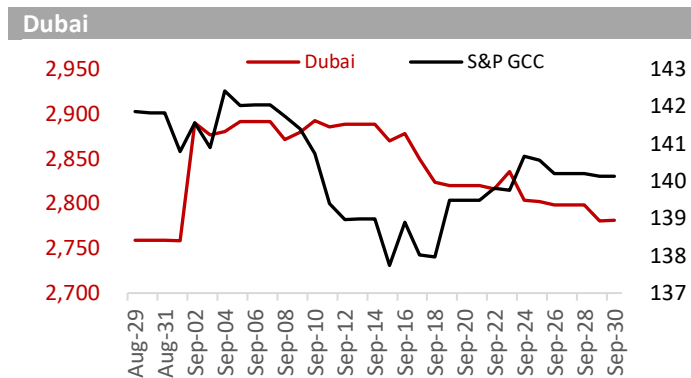
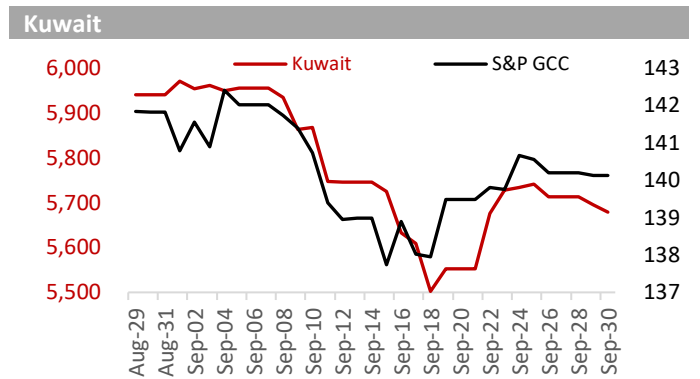
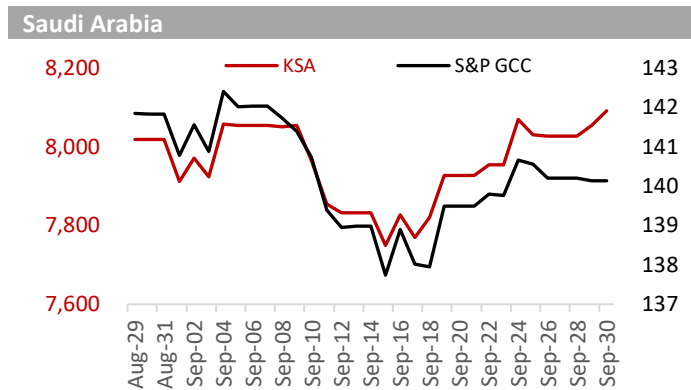
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Stock Market Performance – as of September 30, 2019:



All indices are in local currencies, except for the S&P GCC and S&P Pan Arab, both of which are denominated in USD.

Source: Bloomberg

Market Data – as of September 30, 2019:

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	520.65	1.91%	-0.53%	14.26%	-0.69%
MSCI EAFE (USD)	1,889.36	2.54%	-1.71%	9.85%	-4.27%
MSCI EM (USD)	1,001.00	1.69%	-5.11%	3.65%	-4.48%
US					
S&P 500 Index	2,976.74	1.72%	1.19%	18.74%	2.15%
Dow Jones Industrial Average	26,916.83	1.95%	1.19%	15.39%	1.73%
NASDAQ Composite Index	7,999.34	0.46%	-0.09%	20.56%	-0.58%
Russell 2000 Index	1,523.37	1.91%	-2.76%	12.96%	-10.21%
Developed					
Stoxx Europe 600	393.15	3.60%	2.15%	16.44%	2.60%
FTSE 100 Index	7,408.21	2.79%	-0.23%	10.11%	-1.36%
DAX Index	12,428.08	4.09%	0.24%	17.70%	1.48%
CAC 40 Index	5,677.79	3.60%	2.51%	20.02%	3.35%
Nikkei 225	21,755.84	5.08%	2.26%	8.70%	-9.80%
Hang Seng Index	26,092.27	1.43%	-8.58%	0.95%	-6.10%
Emerging Markets					
Russia Stock Exchange	2,747.18	0.26%	-0.68%	15.95%	10.98%
Turkey - Borsa Istanbul 100 Index	105,033.00	8.60%	8.86%	15.08%	5.08%
MSCI Asia ex Japan	617.77	1.44%	-5.34%	3.55%	-5.73%
Shanghai Composite	2,905.19	0.66%	-2.47%	16.49%	2.97%
India - NIFTY 50	11,474.45	4.09%	-2.67%	5.63%	4.98%
Taiwan Stock Exchange	10,829.68	1.99%	0.92%	11.33%	-1.61%
Brazil Ibovespa Index	104,745.30	3.57%	3.74%	19.18%	32.02%
Mexico Stock Exchange	43,011.27	0.91%	-0.35%	3.29%	-13.12%
MENA					
S&P Pan Arab (USD)	755.78	-0.93%	-5.05%	3.71%	2.10%
S&P GCC Composite (USD)	140.13	-1.21%	-6.78%	3.25%	2.13%
KSA - Tadawul All Share Index	8,091.76	0.90%	-8.27%	3.39%	1.15%
Dubai - DFM General Index	2,781.07	0.81%	4.61%	9.93%	-1.90%
Abu Dhabi - ADX General Index	5,057.32	-2.10%	1.55%	2.89%	2.47%
Qatar Exchange Index	10,367.08	1.31%	-0.85%	0.66%	5.64%
Boursa Kuwait All Share Index	5,678.70	-4.42%	-2.63%	11.80%	10.74%
Oman - Muscat Securities Market 30 Index	4,017.69	0.32%	3.42%	-7.08%	-11.58%
Bahrain Bourse All Share Index	1,516.53	-1.08%	3.09%	13.41%	13.30%
Egypt - EGX 30	14,257.75	-3.89%	1.11%	9.37%	-2.45%
Morocco - MADEX	9,415.76	-1.32%	2.53%	1.98%	2.18%
Jordan - ASE Index	1,827.74	0.36%	-2.60%	-4.25%	-7.49%

*All Indices are in local currency, unless otherwise noted.

Source: Bloomberg

Market Data – as of September 30, 2019:

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Aggregate Bond (USD)	604.07	-1.01%	1.16%	7.08%	8.54%
Barclays US Aggregate Bond	2,221.00	-0.53%	2.27%	8.52%	10.30%
US Government Total Return Value Unhedged (USD)	2,351.87	-0.83%	2.39%	7.66%	10.40%
Bloomberg Barclays US Corp Bond Index	3,202.42	-0.65%	3.05%	13.20%	13.00%
Bloomberg Barclays US Corp High Yield Bond Index	2,127.15	0.36%	1.33%	11.41%	6.36%
Global Treasury ex US Total Return Index Value Unhedged	665.59	-1.54%	0.07%	5.07%	7.10%
Global Agg Corporate Total Return Index Value Unhedged	273.63	-0.77%	1.21%	9.55%	8.66%
JPM Emerging Market Bond Index (USD)	863.81	-0.36%	1.34%	12.08%	10.74%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,343.14	1.24%	-2.30%	7.50%	6.71%
US Treasury Yields (%)	Current		3 M ago	6 M ago	12 M ago
3 Month Yield	1.807		2.172	2.420	2.196
2 Year Yield	1.622		1.761	2.335	2.819
5 Year Yield	1.544		1.743	2.327	2.953
10 Year Yield	1.665		1.974	2.524	3.061
30 Year Yield	2.111		2.501	2.934	3.206
Global Treasury Yields (%)	Current		3 M ago	6 M ago	12 M ago
British 10 Year Gilt	0.488		0.722	1.098	1.573
German 10 Year Bund	-0.571		-0.367	0.008	0.470
Japan 10 Year Treasury	-0.213		-0.146	-0.045	0.130
Commodities					
Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,472.49	-3.15%	4.47%	14.81%	23.65%
Silver Spot	17.00	-7.51%	10.97%	9.69%	15.97%
Energy					
WTI Crude	54.07	-1.87%	-7.53%	19.07%	-26.18%
Brent Crude	60.78	0.58%	-8.67%	12.97%	-26.52%
Natural Gas	2.33	1.97%	0.95%	-20.75%	-22.54%
Currencies					
Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD	1.090	-0.76%	-4.17%	-4.95%	-6.08%
GBP-USD	1.229	1.09%	-3.21%	-3.65%	-5.69%
USD-JPY	108.080	1.69%	0.21%	-1.47%	-4.94%
KWD-USD	3.286	-0.12%	-0.27%	-0.31%	-0.45%
Interbank Rates (%)					
Interbank Rates (%)		1M	3M	6M	12M
London Interbank		2.032	2.099	2.063	2.043
Saudi Interbank		2.263	2.356	2.360	2.361
Emirates Interbank		2.167	2.380	2.410	2.399
Qatar Interbank		2.440	2.560	2.710	3.030
Kuwait Interbank		2.688	2.875	3.063	3.313

Source: Bloomberg

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