

Quarterly report
Q1-2023

Investment Objective

The principal investment objective of the fund is long-term capital appreciation through achieving the highest possible risk-adjusted returns.

Investment Universe

- The fund invests mainly in securities of companies listed on The Egyptian Stock Exchange
- The fund can also invest in treasury bills, treasury bonds, corporate bonds, securitization bonds and time deposits.

Subscription/Redemption

- The fund offers weekly liquidity to investors
- The valuation day for the fund is the last business day of every week
- Minimum initial investment is 10 ICs
- Maximum investment is 50,000 ICs

Fund Details

Type of Scheme	Open Ended
Inception date	October-1994
IC price	EGP 589.2
Dividends Since Inception	EGP 277.0
Bloomberg Ticker	EFGCRAI
ISIN	65077564

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa

Contact Details

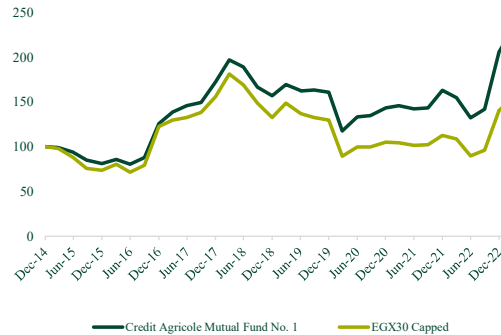
Credit Agricole Egypt	
Telephone	19077
Fax	+202 -27380584
Website	https://www.ca-egypt.com/

Portfolio

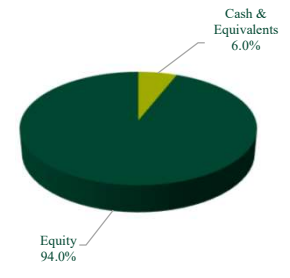
Performance Figures

Date	Return
Q1-2023	12.5%
YTD	12.5%
2022	26.5%
2021	13.6%
5-YTD	17.6%
Since Inception	2144.7%

Relative Performance



Asset Allocation



Market Outlook

Global Equity Markets

Global markets started 2023 on a positive note with MSCI World index increasing 9.4% from the beginning of the year till February 2nd supported by an assumption that inflation has peaked and that weakening demand will let the FED stop raising rates, and might even start an easing cycle before year end.

Afterwards, investor sentiment turned slightly bearish on two developments: 1) January US inflation figure came higher than expectation, and work force data showed resilient labor market, and 2) The fear of global financial crisis amid banking crisis led by Silicon Valley Bank and Credit Suisse Bank. Both events came as a negative surprise for the market that led MSCI world index to drop by 7.4% during the period February 2nd to March 15th eroding most yearly gains achieved taking down the YTD performance to 1.4%.

However, global markets showed strong resilience afterwards with MSCI World index gaining 5.8% from the low of March 15th till end of the month to end the first quarter up 7.3%. We believe that markets rebounded on the assumption that historically monetary tightening cycles always create financial crisis followed by slowdowns/recessions; therefore, the current banking crisis is a sign that the FED has tightened enough.

Moreover, the current trouble in the US banking system will force banks to strengthen their balance sheets, which will require them to increase interest paid on deposits in order to keep its client base. This will increase funding costs that will lead to tight credit conditions causing weaknesses in new investment plans, which will limit income growth and consumer demand. As a result, we believe investors are betting the FED rates will not increase further from current levels of 4.75 – 5.00%, while inflation will drop significantly in reflection of slowing economy causing the FED to start easing before the end of 2023.

Emerging Markets

Emerging markets moved in the same direction as other global markets starting the year on a positive note with MSCI EM index increasing 10.0% from the beginning of the year till January 26th. However, with bearishness in global investment sentiment, MSCI EM index dropped by 10.6% during the period January 26th to March 16th thus turning its YTD performance into negative territory down 1.6%. Afterwards, MSCI EM advanced by 5.2% from the low of March 16th till the end of the month to end the quarter up 3.5%.

We believe that inflation in emerging markets is dropping, which will set the stage for rate cuts across the board once the FED ends its tightening policy. Moreover, China's recovery will support emerging markets growth outlook that will support equity markets, especially if the USD starts to weaken post the end of the FED tight monetary policy.

We note that emerging markets valuation multiples have contracted during 2021 and 2022 given the USD strength and its implications on inflation leading to across the board higher interest rates thus weakening domestic demand thus cutting earnings expectations.

Currently, MSCI EM index is trading at a P/E of 12.7x, which is around 15% lower than its 5-year average of 14.8x. We note that given the recent monetary tightening applied, it is normal to be trading at a discount to the historic average, but given that we are approaching the end of the cycle, we believe that this discount will diminish gradually.

Egyptian Market

The Egyptian market moved in the same direction with global markets with EGX30 increasing 20.7% from the beginning of the year till February 9th. However, with bearishness in global investment sentiment, the market lost 13.4% during the period February 9th to March 22nd thus limiting its YTD performance to 4.5%. Afterwards, EGX30 advanced by 7.6% from the low of March 22nd till the end of the month to end the quarter up 12.5%. We note that the market is underperforming other global markets in USD terms, given that the EGP devalued by 19.9% in 1Q23 implying -9.9% performance for EGX30 in USD terms during 1Q23.

We highlight that corporate earnings increased by 39.2% in 2022 supported by the energy sector which represent around 24% of the index benefitting from the strength of the USD and the continuous rise in commodity prices. In addition banks which represent around 30% of the index also benefited from the continuous rise in interest rates. We believe that corporate earnings will maintain a strong momentum in 2023 supported by a higher average exchange rate given that USD/EGP average rate in 2022 was EGP19.26 compared to a current rate of EGP31.0. Moreover, the CBE hiked rates by 10% in 2022, which will be reflected in earnings of the financial sector during 2023.

We highlight, that the market valuation multiples are contracting, despite of earnings growing by 39.2% in 2022, the index increased by 22.2% only reflecting investor's fear from Egypt's high level of foreign debt and current account deficit. The Egyptian market is currently trading at a P/E of 7.8x, which is around 27% lower than its 5-year average of 10.7x. We believe that the market requires a flexible FX regime in addition to strong economic reforms and more contribution from the provide sector in order to witness a new cycle of multiple expansion. However, we note that the market is currently acting as a hedge against further EGP devaluation, which we believe will keep the market supported in the near future especially with the expected earnings growth.