

Quarterly report Q2-2023

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
- All investments must be approved by the Sharia Board of the fund
- 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 first business day of every week

Fund Details

Type of Scheme	Open Ended
Inception date	December-2004
IC price	EGP 187.24
Dividends Since Inception	EGP 74.75
Bloomberg Ticker	EFGFISL
ISIN	65077570

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa

Contact Details

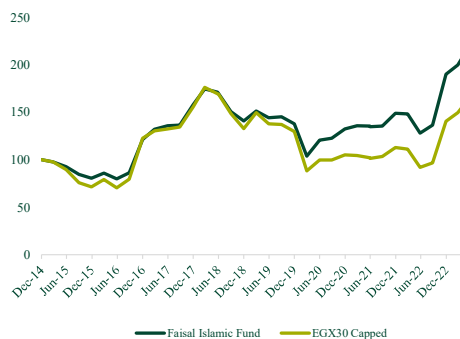
Faisal Islamic Bank of Egypt	
Telephone	19851
Fax	+202-37621281
Website	http://www.faisalbank.com.eg

Portfolio

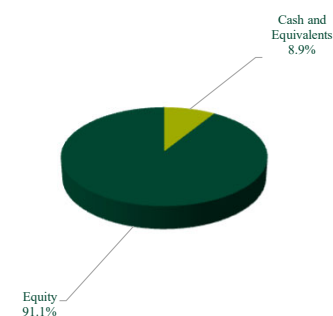
Performance Figures

Date	Return
Q2-2023	11.2%
YTD	16.9%
2022	27.6%
2021	12.7%
5-YTD	29.8%
Since Inception	233.5%

Relative Performance



Asset Allocation



Market Outlook

Global Equity Markets

Global markets started 2023 on a positive note with the S&P500 and MSCI World index increasing 15.9% and 14.0%, respectively in the first half of the year. We attribute the market strong performance in 2023 on the back of the following reasons:

Investors got excited about the prospect of Artificial Intelligence leading to strong advances in the big tech giants. We note that the S&P 500 performance was mainly driven by 7 companies weighing around 28% of the index: Nvidia (189.5%), META (138.5%), TSLA (112.5%), Amazon (55.2%), Apple (49.7%), Microsoft (42.7%), and Alphabet (36.3%).

General sentiment among investors that the FED hiking cycle is over given that the FED already hiked rates by 5.0% during the period March 2022 to May 2023, while inflation dropped from a peak of 9.06% in June 2022 to 4.05% in May 2023.

Equity investors are forward looking, so given the deeply inverted yield curve along with tightening credit conditions suggest that the FED will reverse its tightening cycle within a period of 6-12 months, which bodes well for equities.

We believe that inflation will continue to fall despite of some concerns that inflation will remain sticky. We believe that the remaining period of 2023 and 2024 will be characterized higher unemployment and lower wage inflation that will lead to weaker USD in front of other global currencies, which will bode well for equities with international exposure in addition to commodities (Gold and Oil).

Emerging Markets

Emerging markets, on the other hand, increased by 3.5% only in the first half of 2023 with the performance of the index being weight down by China that represent around 31% of the index and ended the first half of 2023 down 6.5%. China's negative performance was mainly on the back that investors believed that growth assumption from the re-opening of China were overstated. The economy grew by around 6.6% while markets were expecting higher figures given the low base effect as a result of the previously implemented zero-Covid 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. As a result, MSCI EM index is trading at a P/E of 12.1x, which is around 18% lower than its 5-year average of 14.8x.

We believe that China's growth is intact even if the pace of recovery is slower than expectations; however, we believe that growth will eventually increase to 8.0%. As a result, economic recovery will boost corporate profitability, which will support market growth outlook, especially if the USD starts to weaken post the end of the FED tight monetary policy.

We believe that given we are approaching the end of the FED's tightening cycle, we believe that MSCI discount trading will diminish gradually, and MSCI EM markets will trade at a premium to its historic average while the FED is easing its cycle.

Egyptian Market

The Egyptian market is a tale of two currencies. In local currency, the market was up 21% in the first half of 2023 outperforming global and emerging markets; however, if we factor that the EGP depreciated by around 20% during the same period, we note that the market was down by 3.0% in USD terms.

We highlight that corporate earnings increased by 39.2% in 2022, and 54.1% in 1Q 2023; however, the market main index EGX30 increased by 22.2% in 2022 and 21.0% in 1H23 implying that the market valuation is contracting reflecting investor's fear from Egypt's high level of foreign debt and its implications on the currency.

The Egyptian market is currently trading at a P/E of 6.5x, which is around 40% 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 private 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. As a result, we believe that the market will remain achieving positive returns in EGP terms.