Egyptian Gulf Bank Mutual Fund

Quarterly report

Q4-2024

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

Fund Details

Type of Scheme	Open Ended
Inception date	May-1997
IC price	EGP 752.67
Dividends Since Inception	EGP 277.40
Bloomberg Ticker	EFGULBI
ISIN	65077567

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa

Contact Details

Egyptian Gulf Bank	
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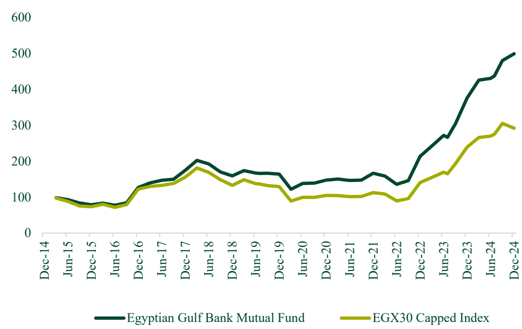
Portfolio

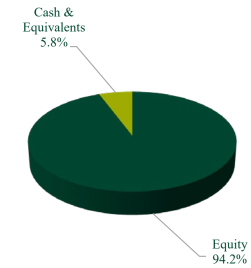
Performance Figures

Date	Return
Q4-2024	2.5%
2024	32.9%
2023	13.3%
2022	13.6%
5-YTD	204.5%
Since Inception	1790.3%

Relative Performance



Asset Allocation



Market Outlook

US Market

The US market had another positive year increasing by 23.3% in 2024 marking the second consecutive positive year and implying 64.4% increase from the market low that was recorded in October 2022. We note that the market Euphoria cooled down towards the end of the year after the S&P reached an all-time high of 6,090 points to drop by 3.4% afterwards, closing the year at 5,882 points.
We believe the market growth was mainly a factor of strong economic resilience that was able to grow despite the FED hiking rates by 5.25% during the period March 2022 to July 2023 to curb inflation. The FED decision was successful, and inflation dropped from a peak of 9.1% in June 2022 to an average of 3.0% in 2024 while the economy did not enter recession. The drop in inflation allowed the FED to cut benchmark rates by 100 bps, starting an easing cycle to help the economy grow further while keeping an eye on inflation.
As a result, the outlook from 2025 is very unclear as since the elections of President Trump, the USD has been strengthening amid fears of trade war escalation between the US and China in addition to the global geopolitical instability. We note that the new US administration is coming with mixed signals towards inflation. On one side, they have strong tariff plans which will lead to an increase in goods prices in addition to implementing tough policies on immigration that will lead to raising labor wages which is another inflationary element. On the other hand, the administration is also committed to increasing oil production to reduce energy prices, while promoting economic growth through increasing the country's productivity which is another dis-inflationary element.
Therefore, investors are expecting the FED to keep rates on hold during the first quarter of 2025 in light of the elevated uncertainty of the outcome of the economic policies of the new US administration, and based on the performance of the economy and inflation figures, the FED will cut rates by further 50 – 100 bps or remain on hold if inflation persists at the current level of 3% (above the FED target of 2.0%).

Emerging Markets

MSCI Emerging Markets index increased by 5.1% in USD terms during 2024. Emerging markets started the year strongly advancing 16.0% in the first 10 months of the year; however, with the US elections approaching and the success of President Trump, panic prevailed among investors on the possibility of an intensified trade war between the US and China leading to a decrease of 9.5% in MSCI EM index in the last two months of the year limiting the YTD performance to 5.1% only.
We believe the outlook for 2025 in emerging markets will depend on the degree of the trade war between the US and China, and whether both parties are bargaining to improve their negotiation stance or there will be tough collision. Moreover, the other decisive factor is to what extent is the Chinese government willing to add stimulus to improve the country's economic growth considering the current weak demand.
We note that MSCI EM is trading at P/E (25e) of 11.8x compared to its 5-years average of P/E of 15.2x implying 22.4% discount. Therefore, we see limited downside in emerging markets; however, for markets to achieve a bull run, trade war issues need to be resolved to stop the USD strengthening and allow the Fed to resume its easing cycle.

Egyptian Market:

The Egyptian market surged by 2.9x during the period July 2022 to March 2024 driven by EGP weakness and investors looking for alternatives to preserve the value of their money. The market continued its run, increasing by 17.5% from the end of March till the end of September with investors shifting their exposure to stocks that were highly depressed during the FX shortages, mainly in the consumer and healthcare sector. Finally, the market was supported by acquisitions from regional investors into local quality names that turned very cheap in USD terms.
However, the market declined in the last quarter of 2024 by 5.8% moving in parallel with the decline in emerging markets amid fear of an intensified trade war and its implications on emerging economies.
We note that corporates operating income increased by 50.5% during 9M24 compared to limited upside in the market during 2024 by 19.5%, implying multiple contraction. The market is currently trading at P/E (25e) of 6.5x implying around 30% discount to its 5-years average of P/E of 9.3x. We believe that the market is lacking a clear catalyst given that local investors are already heavily exposed to the market; while foreign investors presence is muted at around 7% of turnover compared to 15% pre-currency crisis in 2022.
We believe the market has limited downside from here given that already earnings are advancing at a much higher pace than average market returns; however, a strong rally considering the absence of a clear catalyst is doubtful. Finally, we believe that the market cheap valuation will keep the acquisition theme as a catalyst in 2025. However, we note that the acquisition theme is positive in the short term, yet it has negative long-term implications as the market keeps shrinking in terms of breadth and diversity.