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## A true rotation into cyclicals could benefit UAE stocks

◆ Stocks in the country are geared to cyclical sectors, such as financials and real estate.

◆ The MSCI UAE index's P/E discount to the MSCI EM is at the highest in at least a decade.

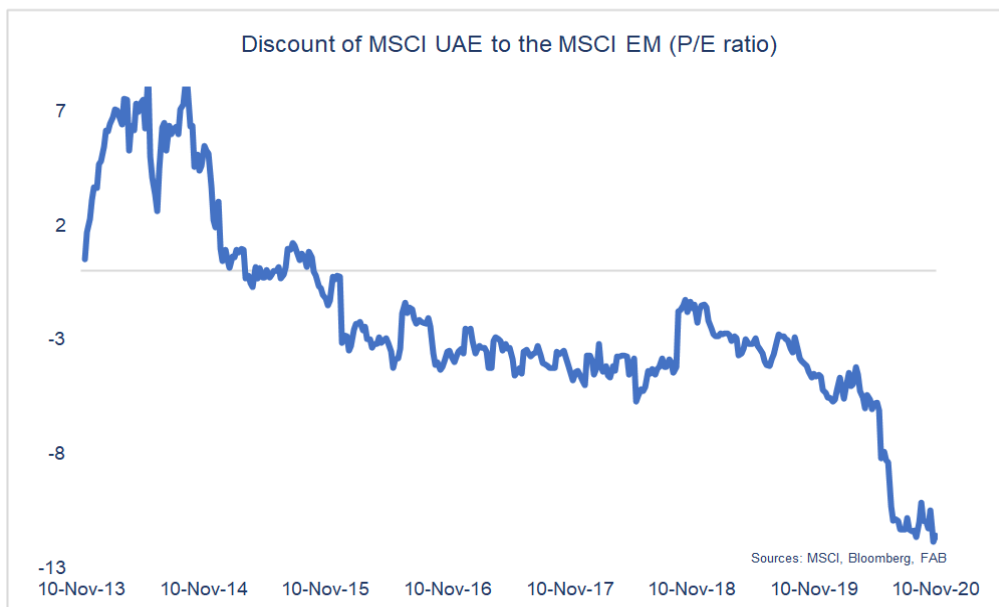
◆ A vaccine and a global reopening could benefit the country significantly, given its geographical location and the current relatively low price of property.

◆ The FAB AAC remains marginally underweight in global stocks and overweight in EM and IG bonds.

The past two weeks have marked a potential rotation in developed stock markets. Small- and medium-cap company shares have outperformed large technology firms, in a clear move away from the winners in the stay-at-home environment to the potential gainers if the world economy recovers.

This has also entailed an increasing allocation to emerging market equities, which tend to also do better when the world economy is expanding at a faster rate. Stocks in the UAE have also benefited, but not to the same extent. The underperformance this week prompted some international financial firms to become bullish on the local stock market.

The call makes sense in many ways. If there is really a strong economic recovery and the world reopens for travel and business, the UAE is particularly well-placed to benefit. The country has become a global travel hub, with some of the busiest airports in the world, partly because one can reach almost anywhere in the planet in a single flight from here.



Its geographical location also means the UAE is a very important transshipment point connecting the east, the west and Africa. It is easy to see how a world of online orders could benefit the country.

In a more straightforward way, however, the country may offer a good and relatively cheap option for global investors to increase their leverage to the global economic cycle. One of the main drivers of growth in the UAE is oil, which stands to gain if the world goes into a higher gear.

The UAE is, though, the most diversified economy in the Gulf Cooperation Council. Still, the other key industries in the country are also mostly cyclical, namely financials, construction, real estate and travel.

In the S&P 500, these industries are among the worst performers until the end of October, except for real estate, which benefits from lower interest rates and has been rallying. They have, however, just started to outperform the others.

### The price-to-earnings discount of the MSCI UAE to the MSCI EM is at a 10-year high

Hence, if global investors were to increase their allocation to these industries, while keeping a geographically diversified portfolio, they may well consider the UAE markets. Especially because on a relative basis stocks here are cheap.

Using the ratio between stock prices and earnings as a gauge, the UAE market is trading at the biggest discount to the broader emerging markets in a decade. The trailing P/E ratio of the MSCI EM index has gone from 15.9 at the beginning of the year to the current 22.6. Meanwhile, the MSCI UAE began the year trading at a trailing P/E ratio of 10.3 and it is now at 10.9. Global investors are still concerned about the prospect for oil prices, but as the rally broadens, it stands to reason that they could turn to UAE stocks.

# Investment Strategy Update

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