

2016 Outlook

The ADIB Investment Outlook 2016

21st – 23rd February 2016

For ADIB clients only. Not for further distribution

Scorecard from the 2015 ADIB Investment Outlook

		2015 Assessment	What went right / What went wrong
 Economy	 Global	✓	Global growth will be weaker.
	 Emerging Market	✓	Impact of China slowdown will hurt other EMs.
	 Developed Markets	✓	The US and Eurozone will continue to lead the recovery.
 Equities	 Global	✗	Equities will deliver positive returns.
	 UAE	✗	UAE equity valuations appear reasonable.
	 Volatility	✓	Volatility will remain high.
 Fixed Income	 Sukuk	✓	Sukuk investors will get paid for taking risk .
 Commodities	 Oil/Gold	✓	The Oil market will remain volatile. Avoid Gold and other commodities.
 Private Equity	 UAE Real Estate	✓	UAE sales market to weaken further whilst rental market performance will remains modest.

The ADIB 2016 Investment Outlook (in a nutshell)

INVESTORS SHOULD SEEK

- **Equities which will deliver positive returns**
 - *UAE equities - high-quality dividend paying companies are good to own (but are strongly correlated to the Oil price)*
 - *European equities and real-estate – support from QE, modest recovery, better private consumption, weaker Euro, lower Oil prices and easier financial conditions*
- **Corporate Sukuk - offer a decent risk-return pay off**
- **Selective “Private Investments” – to generate meaningful returns, but investors must demand a “premium” for illiquidity**
- **Increased holdings in cash (waiting for opportunities)**

INVESTORS SHOULD AVOID

- **Adding to Gold/Oil exposures (or other Commodities)**
- **Speculative investments in local real-estate**
- **Over-concentrated investment portfolios – i.e. remain well diversified**
- **Excessive levels of leverage**

على المستثمرون أن يسعون إلى

• الأسهم التي سوف تحقق عوائد أعلى

- الأسهم الإماراتية – من الجيد امتلاك أسهم شركات ذات أرباح عالية الجودة (ولكن ترتبط بقوة أسعار النفط)
- الأسهم الأوروبية والعقارات - بدعم من التيسير الكمي، انتعاش متواضع، واستهلاك أفضل من القطاع الخاص، ضعف اليورو، وانخفاض أسعار النفط والأوضاع المالية أسهل

• صكوك الشركات – تقدّم مردود مقبول في منظوم العوائد إلى المخاطر

• «الاستثمارات الخاصة» – تولد عوائد مجزية، ولكن طلب «هامش ربح

أعلى» لانعدام السيولة

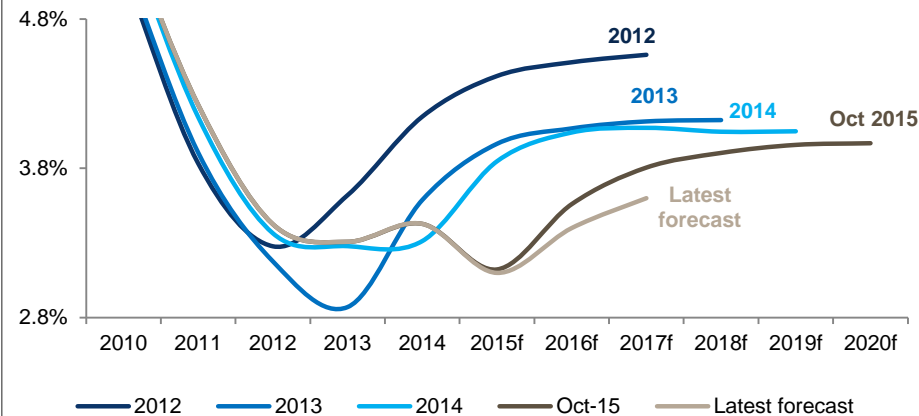
على المستثمرين تجنب

- إضافة التعرض إلى الذهب/النفط (أو سلع أخرى)
- المضاربة في استثمارات في الأسواق المحلية العقارية
- التركيز المفرط في المحافظ استثمارية – أي المحافظة على التنوع
- مستويات مفرطة من الرفع المالي

Normalisation of rates in the US, slowdown in emerging economies and geopolitical tensions weigh on global outlook

- Global economy expected to grow at a slower pace

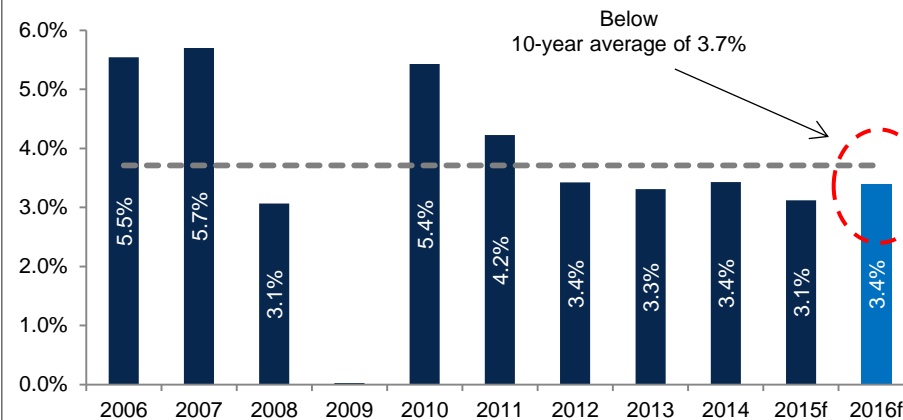
Exhibit 1: Global economy expected to grow 3.4% in 2016



Source: IMF WEO September 2011, October 2012, October 2013, October 2014, October 2015, January 2016

- من المتوقع أن يشهد الاقتصاد العالمي نمو بوتيرة أبطأ

Exhibit 2: Real GDP growth in 2016 to remain below 10-year average

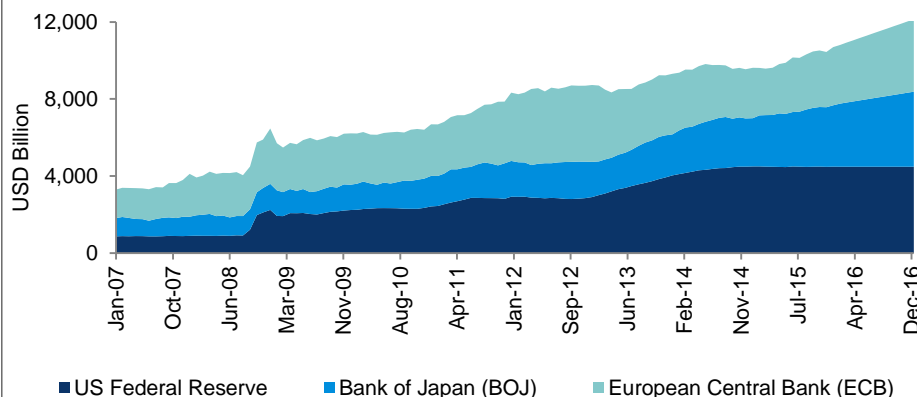


Source: IMF WEO October 2015, January 2016

Policy divergence to continue as US Fed begins normalisation of rates and other Central Banks continue easing

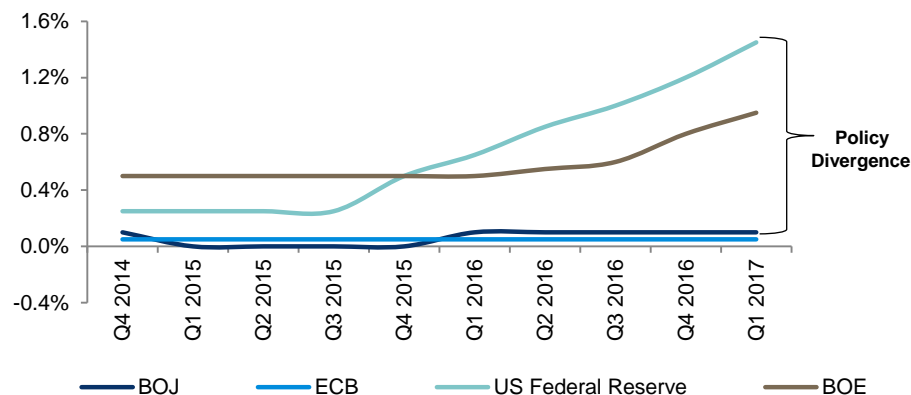
- The ECB and BOJ to provide additional stimulus and maintain record low rates

Exhibit 3: Total assets of leading central banks



Source: Bloomberg; Note: Forecast numbers are based on the ECB buying assets worth EUR 60 billion (USD 65 billion at current exchange rate) per month and BOJ buying assets worth ¥80 trillion (USD 675 billion at current exchange rate) annually

Exhibit 4: Interest rate divergence between major central banks



Source: Bloomberg

- البنك المركزي الأوروبي و الياباني يوفران حوافز إضافية مع الحفاظ على معدلات فوائد منخفضة قياسية

- The US Fed and BOE expected to raise rates at a gradual pace

- البنك الاحتياطي الفيدرالي الأمريكي والبنك المركزي البريطاني من المتوقع أن يرفعا أسعار الفائدة بوتيرة تدريجية

PMI indicates stalled manufacturing activity in EMs

Upbeat manufacturing activity in DMs; manufacturing activity slows in most EMs

- Most EMs reporting weak manufacturing activity
- China's manufacturing sector contracts for the 11th consecutive month in January
- KSA and the UAE's manufacturing activity slowing

Exhibit 5: Positive industrial activity in DMs, while contraction in EMs

Market	Regions	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16
Developed	US	53.1	54.1	52.8	51.2	52.4
	Euro Zone	52.0	52.3	52.8	53.2	52.3
	Germany	52.3	52.1	52.9	53.2	52.3
	France	50.6	50.6	50.6	51.4	50.0
	Japan	51.0	52.4	52.6	52.6	52.3
Emerging	Brazil	47.0	44.1	43.8	45.6	47.4
	Russia	49.1	50.2	50.1	48.7	49.8
	India	51.2	50.7	50.3	49.1	51.1
	China	47.2	48.3	48.6	48.2	48.4
	Indonesia	47.4	47.8	46.9	47.8	48.9
	Hong Kong	45.7	46.6	46.6	46.4	46.1
	Saudi Arabia	56.5	55.7	56.3	54.4	53.9
	UAE	56.0	54.0	54.5	53.3	52.7

Source: Bloomberg

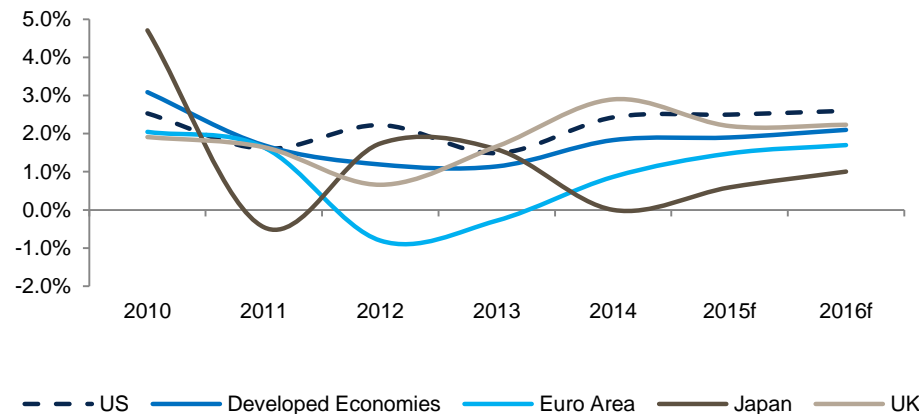
level above 50 indicates expansion
 level below 50 indicates contraction

- معظم الأسواق الناشئة أعلنت عن ضعف النشاط الصناعي
- تقلص القطاع الصناعي الصيني للشهر الـ 11 على التوالي في يناير
- تباطؤ النشاط الصناعي في المملكة العربية السعودية ودولة الإمارات العربية المتحدة

Growth in DMs improving at marginal pace

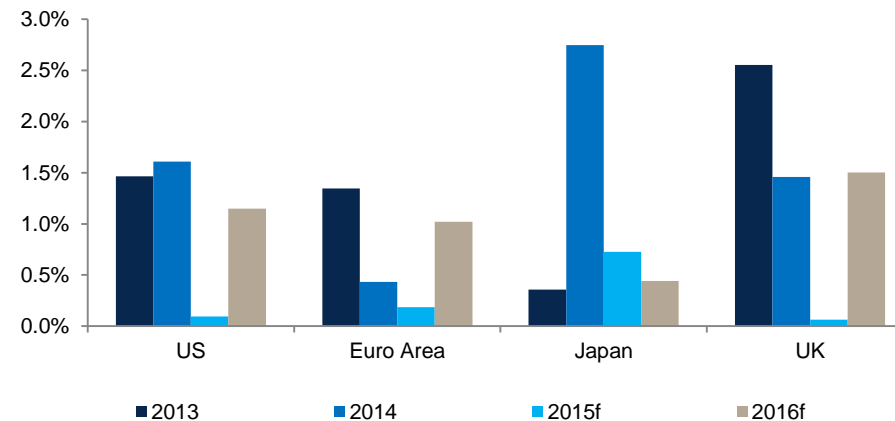
- *Economic recovery in the US remains on track*
- *Growth in the Eurozone picking up, but at a modest pace*
- *Inflation remains well-below historical levels and target (2%)*

Exhibit 6: US GDP growth outpaces DM peers



Source: IMF WEO October 2015, January 2016

Exhibit 7: Low inflation remains a concern in DMs



Source: IMF WEO October 2015; Note: Inflation represents average consumer prices for the year

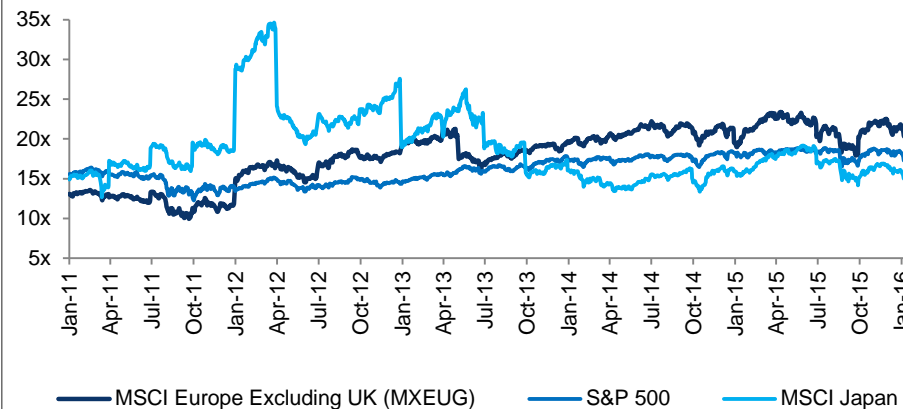
- لا يزال الانتعاش الاقتصادي في الولايات المتحدة على المسار الصحيح
- النمو في منطقة اليورو ينتعش، ولكن بوتيرة متواضعة
- التضخم لا يزال أقل بكثير من المستويات التاريخية والهدف (2%)

Continental European equities – A bright spot

European equities offer better prospects, led by supportive Central Bank policy, weaker Euro and low Oil prices

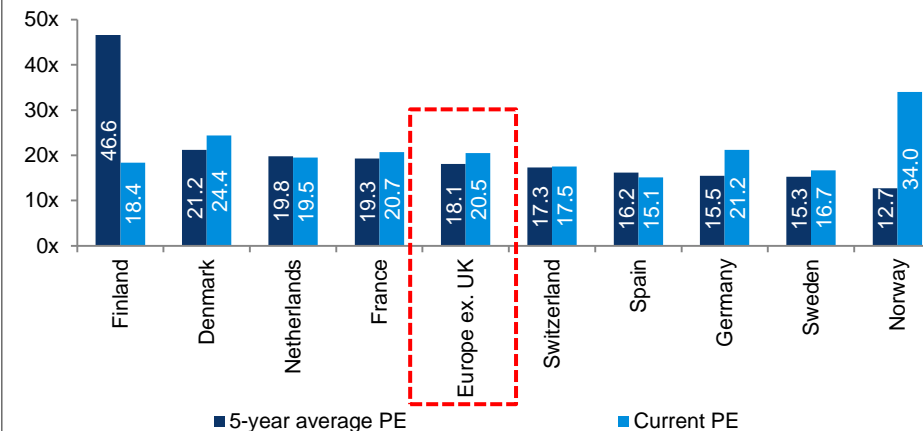
- Valuations for European equities reasonable, although marginally at a premium to peers
- Accommodative ECB policy should boost consumer spending
- Weaker Euro and low Oil price should benefit European companies

Exhibit 8: Historical P/E ratio of developed countries



Source: Bloomberg

Exhibit 9: Equity market valuations of Continental European countries



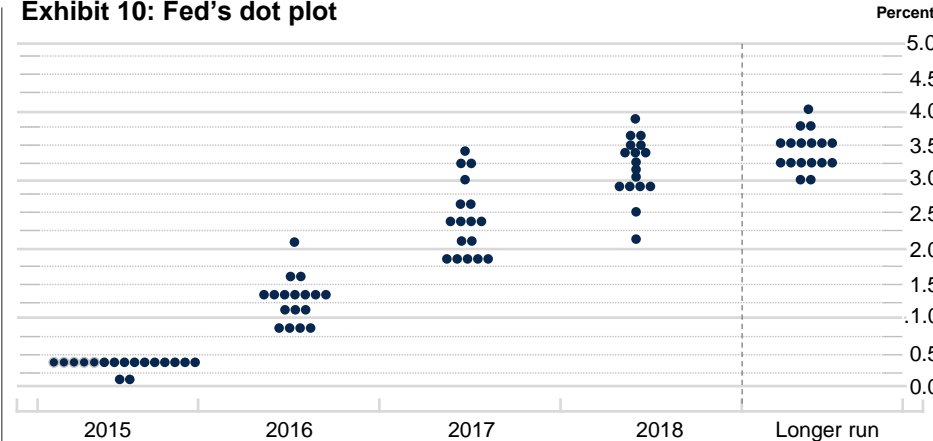
Source: Bloomberg; Note: Current PE represents value as of 29 January 2016

- تقييمات الاسهم الأوروبية معقولة، على الرغم من علاوة السعر مقارنة بالأسواق النامية
- سياسة البنك المركزي الأوروبي التيسيري يجب ان تحفز الإنفاق الاستهلاكي
- من الارجح أن تستفيد الشركات الأوروبية من ضعف اليورو وانخفاض أسعار النفط

Market predictions of rate hike more dovish than the Fed's indication

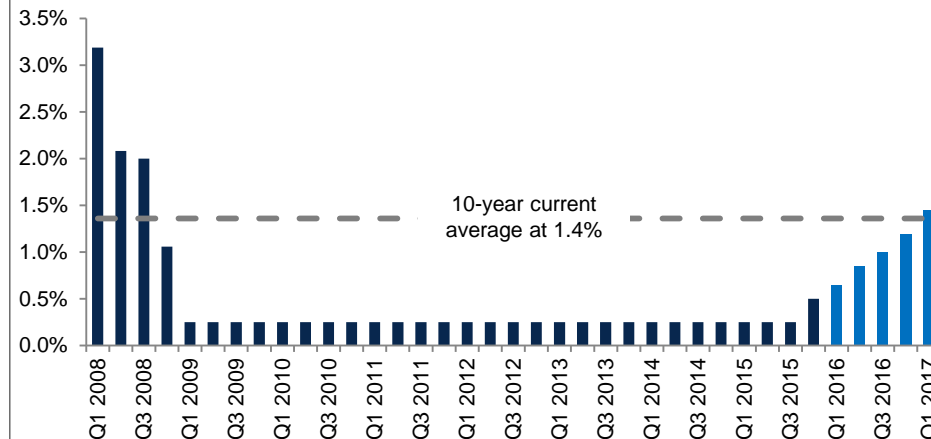
- In December, the Fed suggested four rate hikes of 0.25% each in 2016; the current market turmoil does not support the Fed's projections

Exhibit 10: Fed's dot plot



Source: Federal Open Market Committee, News article; Note: The "dot plot" shows where each participant in the meeting thinks the Fed funds rate should be at the end of the year for the next few years and in the longer run

Exhibit 11: Market forecasts Fed rate to rise gradually in near term



Source: Bloomberg, Note- Current average is as of 29 January 2016

- The Fed likely to consider both domestic and global risks, and GRADUALLY increase rates

- في ديسمبر، اقترح مجلس الاحتياطي الاتحادي رفع أسعار الفائدة اربع مرات بنسبة 0.25% في عام 2016, ولكن اضطرابات الاسواق حاليا لا تدعم توقعات مجلس الاحتياطي الفيدرالي

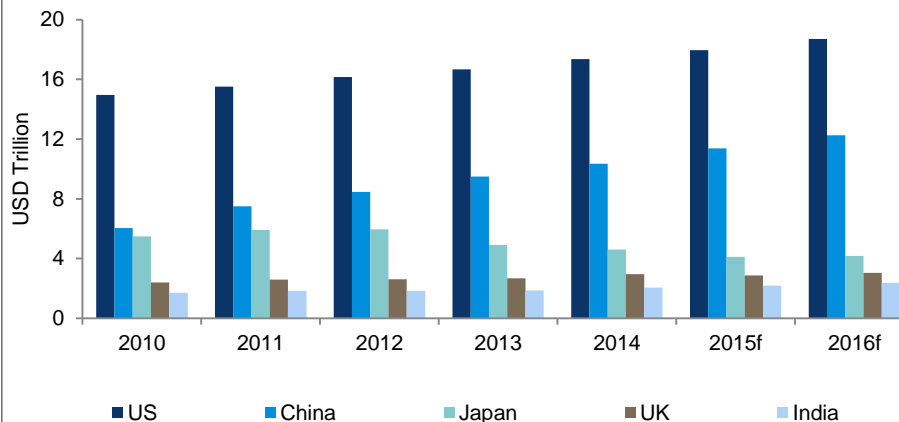
- من المرجح أن البنك الاحتياطي الفيدرالي ينظر الى المخاطر المحلية والعالمية، وتدرجيا يزيد في معدلات الفائدة

The slowdown in China will impact the global economy

Slowdown in China triggering causing stress across global markets

- China is the world's largest economy in terms of PPP and second-largest in terms of nominal GDP (after the US)

Exhibit 12: Nominal GDP of major global economies

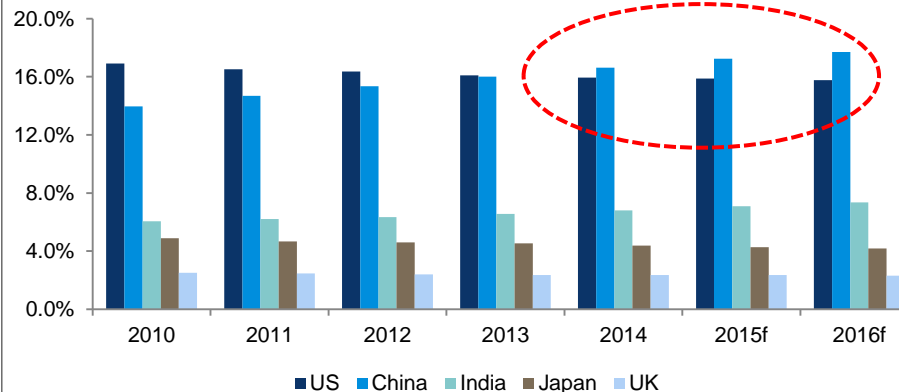


Source: IMF WEO October 2015

- تعتبر الصين أكبر اقتصاد في العالم من حيث القوة الشرائية و الثاني أكبر من حيث الناتج المحلي الإجمالي الاسمي بعد الولايات المتحدة الأمريكية)

- China is the largest market for commodities with 50% consumption and second-largest consumer of fuel

Exhibit 13: GDP based on PPP share of global total



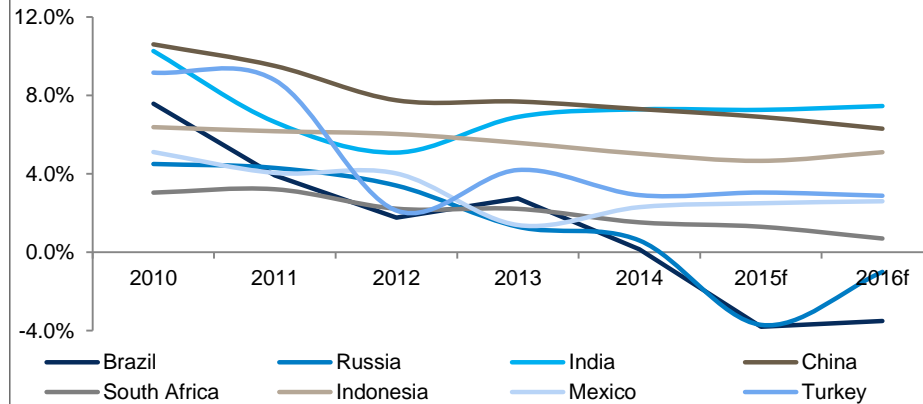
Source: IMF WEO October 2015

- الصين هي أكبر سوق للسلع مع استهلاك 50% وثاني أكبر مستهلك للوقود

Slowdown in China, low commodity prices, rising debt levels and increasing borrowing costs weigh on growth prospects of EMs

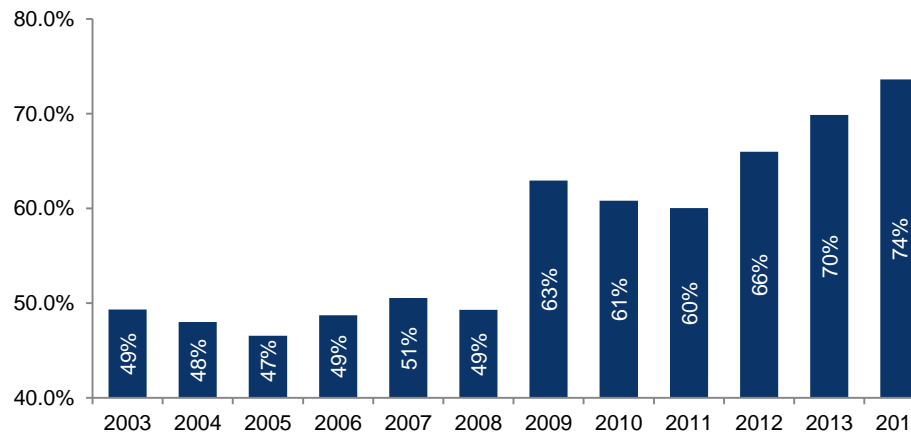
- BRICs economies facing high political and economic risks; India appears the only bright spot

Exhibit 14: Real GDP growth of largest EM economies



Source: IMF WEO October 2015, January 2016

Exhibit 15: Rising corporate debt (% of GDP) in EMs



Source: IMF 'Rise in Emerging Market Corporate Debt Driven by Global Factors' September 2015 Press Release

- اقتصاد دول BRICs تواجه مخاطر سياسية واقتصادية عالية؛ وعلى ما يبدو أن الهند الوحيدة التي تدل على إشارات إيجابية

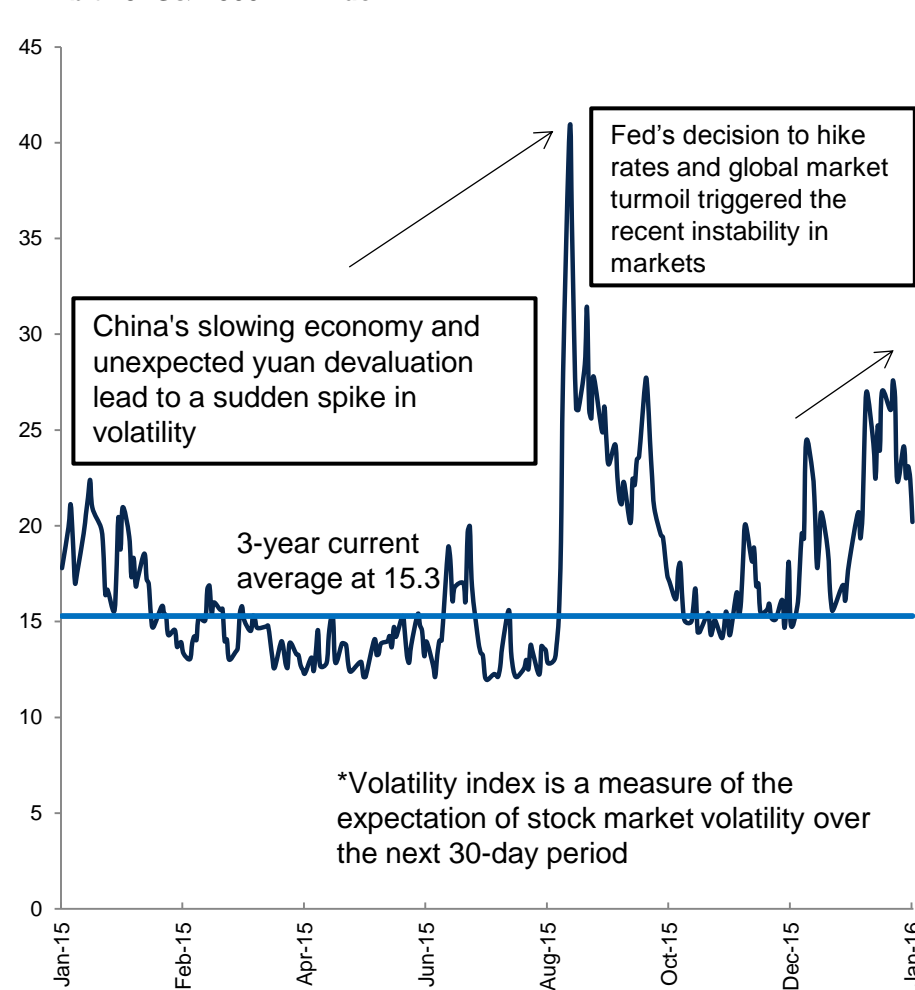
- مخاوف النمو في الصين يضر بالأسواق الناشئة المصدرة

- ارتفاع حاد في ديون القطاع الخاص؛ مستويات الدين ارتفعت حوالي 74% من الناتج المحلي الإجمالي في عام 2014 من 49% في عام 2008

2008

Turmoil in China, divergent monetary policies, declining liquidity and geopolitical tensions pose a threat to global markets

Exhibit 19: S&P 500 VIX Index



Source: Bloomberg

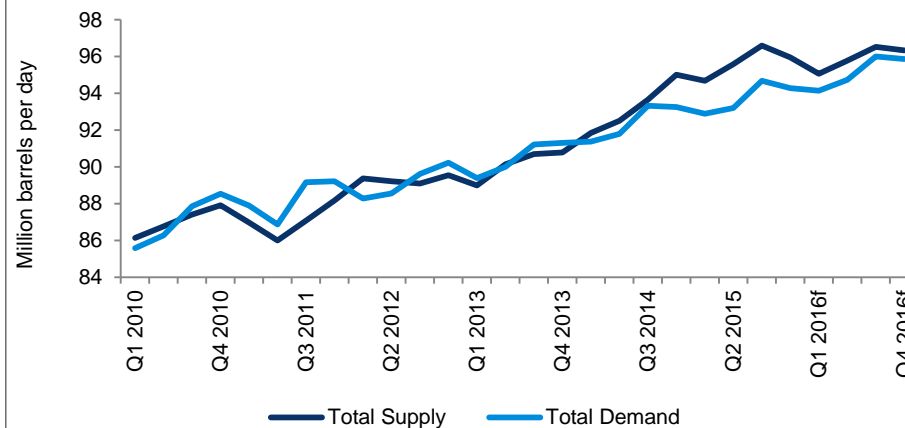
- In an uncertain and volatile global market, investors should remain disciplined*

- الاسواق العالمية متقلبة وغير واضحة، يجب أن يبقى المستثمرون حذرون

Oil prices tested new lows to reach a 12-year low of USD 27 per barrel in January 2016

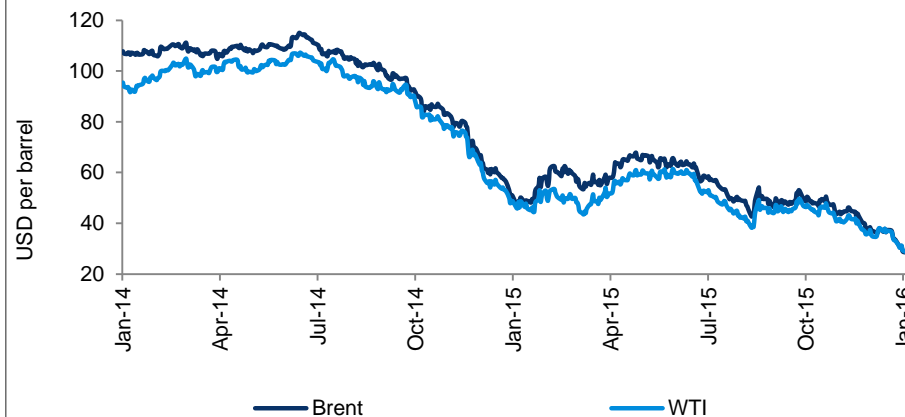
- Oil market experiencing its longest supply glut
- Iran expected to add 500,000 barrels per day to global production
- OPEC's refusal to cut production, high non-OPEC output and weak global growth weigh on the Oil price

Exhibit 20: Oil market facing large supply glut



Source: EIA monthly reports

Exhibit 21: Spot Brent and WTI crude prices



Source: Bloomberg

- سوق النفط يشهد أعلى نسب فائض في الاحتياطي
- من المتوقع إن إيران ستضيف 500,000 برميل يوميا إلى الإنتاج العالمي
- رفض أوبك لخفض الإنتاج، وارتفاع الإنتاج خارج منظمة أوبك وضعف النمو العالمي تلقي بثقلها على أسعار النفط

Oil price recovery to take longer than expected

Oil "futures" indicate no medium-term recovery in Oil prices

- Various crude benchmarks trading below USD 30 per barrel since the beginning of 2016
- Oil "futures" indicate prices to remain significantly "lower for longer" than anticipated
- USD 50/barrel by 2020

Exhibit 22: Other crude benchmarks trading lower than Brent

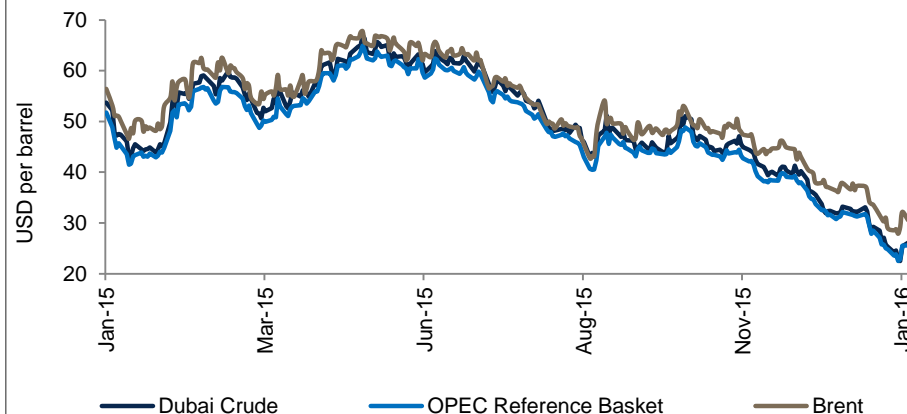
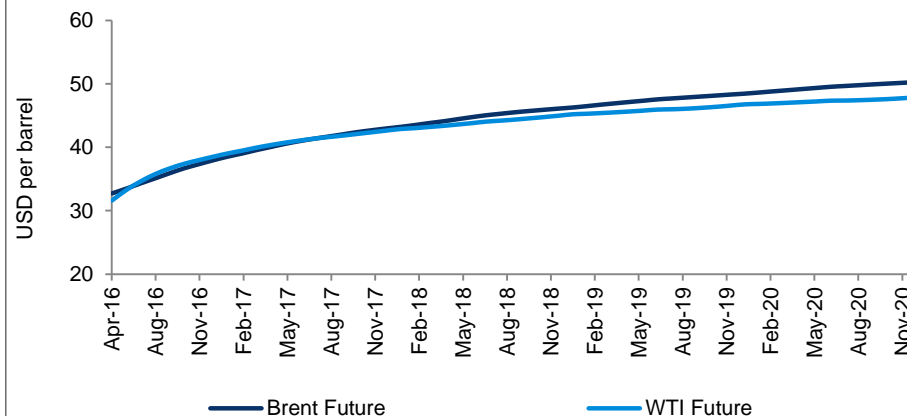


Exhibit 23: Oil futures indicate prices to remain lower for longer



- معايير الخام المختلفة تتداول ما دون 30 دولارا للبرميل منذ بداية 2016

- اسعار عقود النفط "الأجلة" تشير الى حد كبير ان الأسعار سوف تبقى "أقل لفترة أطول" مما كان متوقعا

- 50 دولار أمريكي / برميل بحلول عام 2020

US Oil production declines after reaching a peak of 9.6 million barrels per day (MMbpd) in mid-2015

- EIA expects US Oil production to decline c. 4% to 8.8 MMbpd in 2016
- Sell-off in Oil leads to sharp fall (62% in 2015) in the number of drilling rigs
- Inventories still at their highest levels
- US has lifted a 40-year ban on Iranian crude Oil exports which will strengthen its position

Exhibit 24: Weekly US oil production and rig count

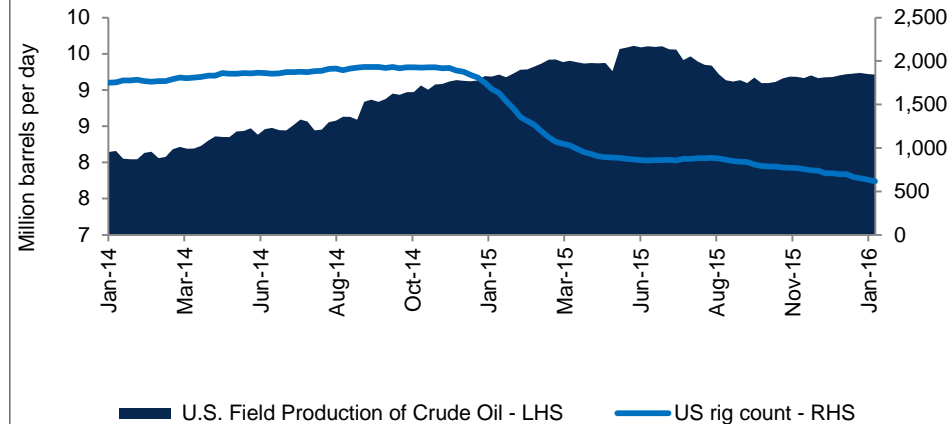
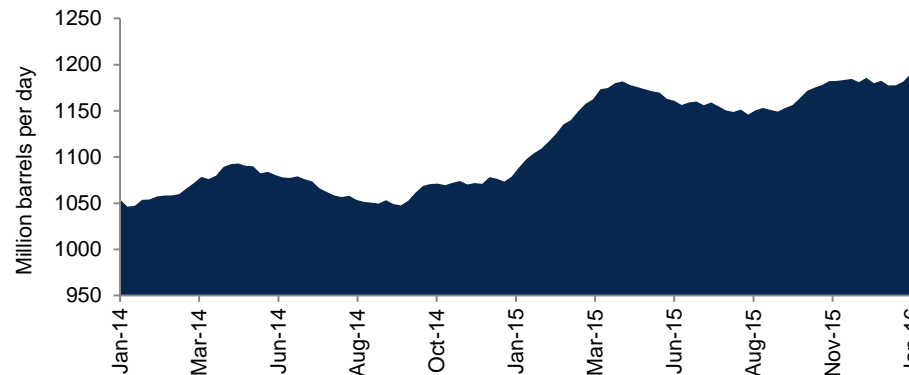


Exhibit 25: Weekly US stock of crude oil



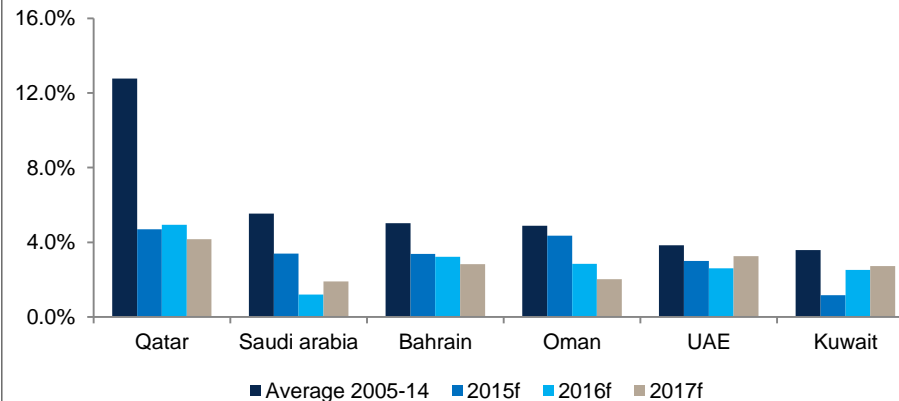
- تتوقع إدارة معلومات الطاقة انخفاض إنتاج النفط الأمريكي **حوالي 4% إلى 8.8 مليون برميل يوميا في عام 2016**
- عمليات البيع في النفط يؤدي إلى انخفاض حاد في عدد آبار الحفر (62% في عام 2015)
- مخزون النفط لا يزال عند أعلى مستوياته
- الولايات المتحدة رفعت الحظر المفروض على صادرات إيران من النفط الخام منذ 40 عاما والتي من شأنها أن تعزز موقفها

GCC economies will be impacted by fall in Oil prices

GCC economies to witness slower growth on persistent drop in Oil prices and high levels of spending

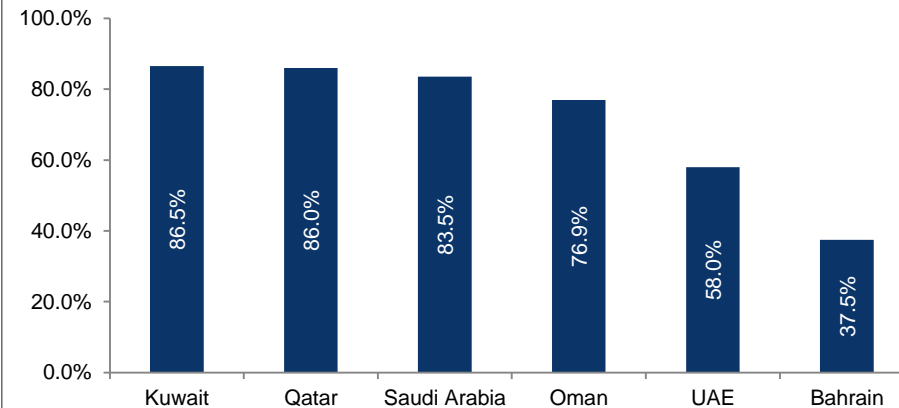
- Economic growth in GCC expected to slow to 2.75% in 2016 from 3.25% in 2015 and 3.4% in 2014 (Source: IMF)

Exhibit 26: Real GDP growth in GCC countries



Source: IMF October 2015, January 2016; Note: Saudi Arabia's GDP growth is based on the IMF's January 2016 update, and the UAE's 2016 forecast is based on news article

Exhibit 27: Hydrocarbons as % of total exports (as of 2014)



Source: UNCTAD, UBS Investing in Emerging Market February 2016 Report

- توقع النمو الاقتصادي في دول مجلس التعاون الخليجي أن يتباطأ إلى 2.75% في عام 2016 من 3.25% في عام 2015 و 3.4% في عام 2014 (المصدر: صندوق النقد الدولي)

- Despite diversification efforts, most GCC countries still heavily dependent on Oil exports

- على الرغم من جهود تنويع الاقتصاد، فإن معظم دول مجلس التعاون الخليجي لا تزال تعتمد بشكل كبير على صادرات النفط

GCC economic growth to further slow as countries start fiscal consolidation

- GCC budgets vulnerable to low Oil prices

- GCC countries will fail to balance their budgets, with Brent trading significantly below budget break-even prices

Exhibit 28: Brent lower than fiscal break-even prices of GCC countries

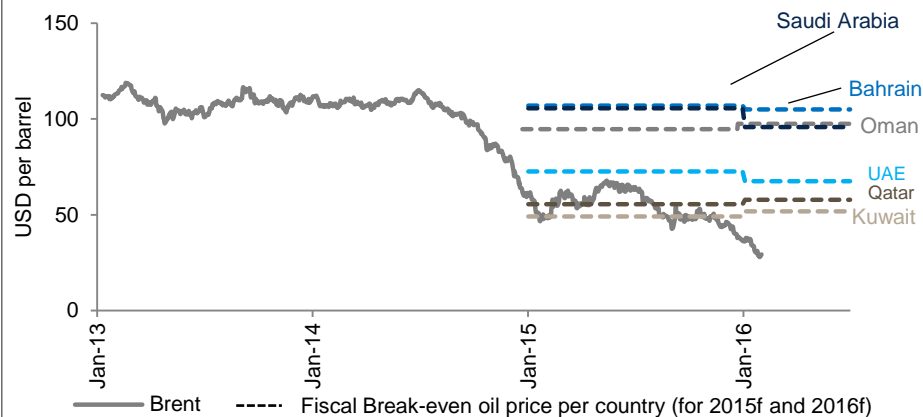
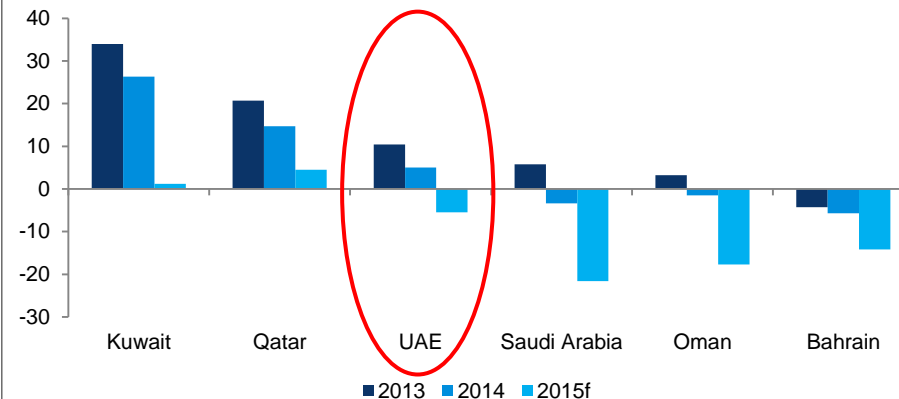


Exhibit 29: Declining government fiscal balance (as % of GDP) in GCC



- ميزانيات دول مجلس التعاون الخليجي متأثرة بانخفاض أسعار النفط

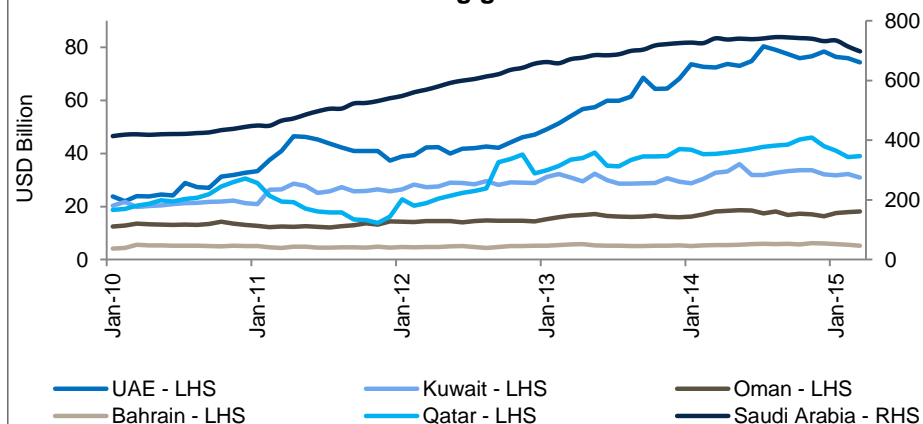
- ستتأثر دول مجلس التعاون الخليجي بتحقيق التوازن في ميزانياتها مع اسعار التداول الحالية للنفط والتي هي أقل بكثير من الأسعار المطلوبة للتعادل في الميزانية

A lower Oil price depleting sizeable levels of financial reserves in GCC

GCC economies likely to benefit from significant but depleting reserves and tax reforms

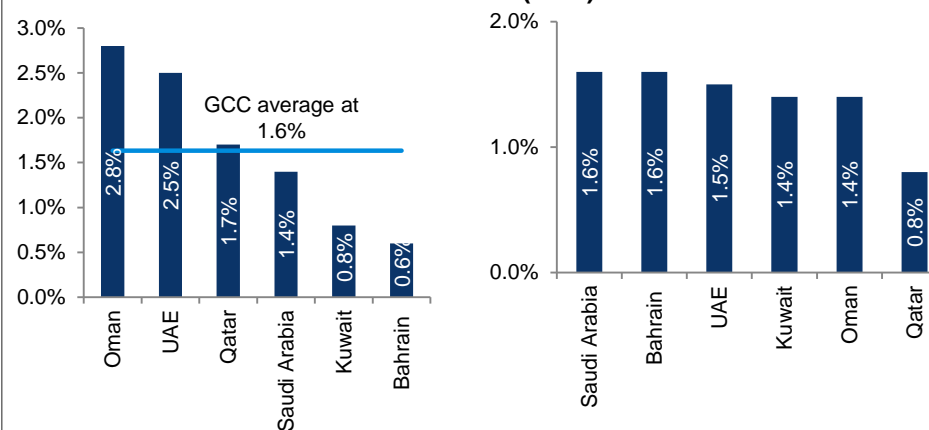
- GCC has substantial reserves, but they vary among countries
- Declining Government revenue from Oil resulting in immediate need to diversify revenues, increase borrowing and reduce spending

Exhibit 30: Total reserves excluding gold



Source: IMF, ADIB Research

Exhibit 31: Non-Oil tax revenue as % of GDP (LHS) and expected VAT revenue as % of GDP at VAT rate of 5% (RHS)



Source: IMF 'Tax Policy Reforms in GCC countries November 2015' Report

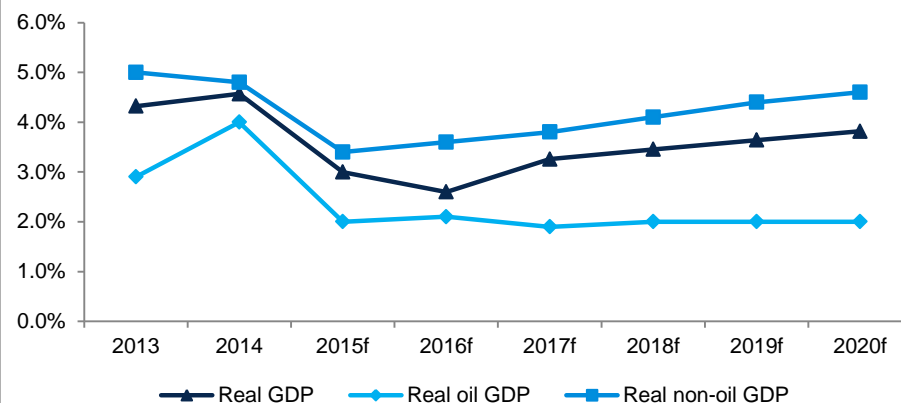
- لدى دول مجلس التعاون الخليجي احتياطات ضخمة ، لكنها متفاوتة من دولة الى اخرى

- تراجع عائدات الحكومة من النفط أدى إلى حاجة ملحة لتنويع مصادر دخلها، زيادة الاقتراض وخفض الإنفاق

Weakening Oil prices, economic slowdown weigh on the UAE's growth outlook

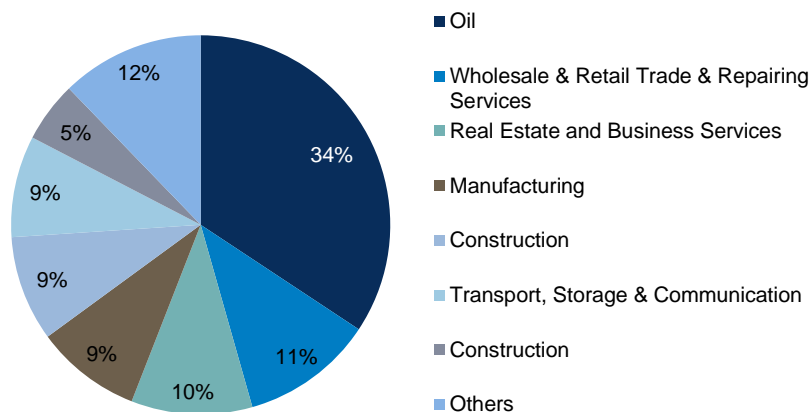
- The IMF lowered the UAE's GDP growth forecast to 2.6% in 2016 (from 3.1%), its slowest expansion since 2010

Exhibit 32: UAE's oil, non-oil and real GDP growth



Source: IMF August 2015 Press Release, IMF WEO October 2015, News article

Exhibit 33: UAE's GDP composition by industry (2014)



Source: Bloomberg

- صندوق النقد الدولي يخفض توقعات نمو الناتج المحلي الإجمالي لدولة الإمارات العربية المتحدة إلى 2.6% في عام 2016 (مقارنة ب 3.1%)، المستوى الأقل منذ 2010

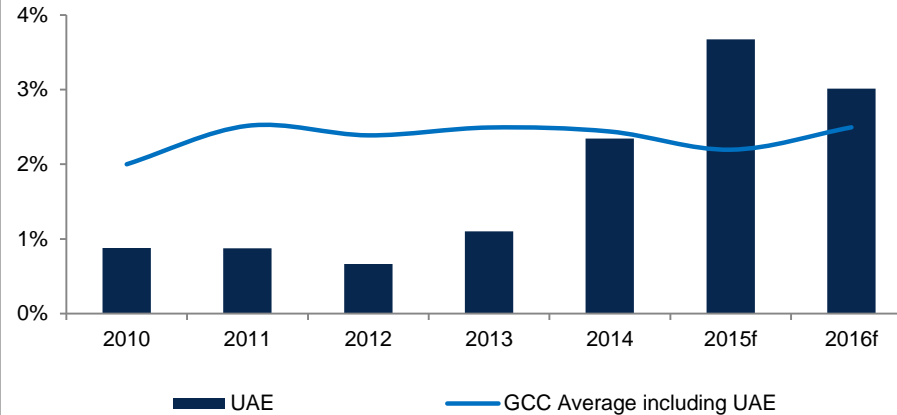
- However the UAE's economy is well diversified

- لكن الاقتصاد في دولة الإمارات متنوع بشكل جيد

UAE's economy better positioned to tackle falling Oil prices despite slowdown

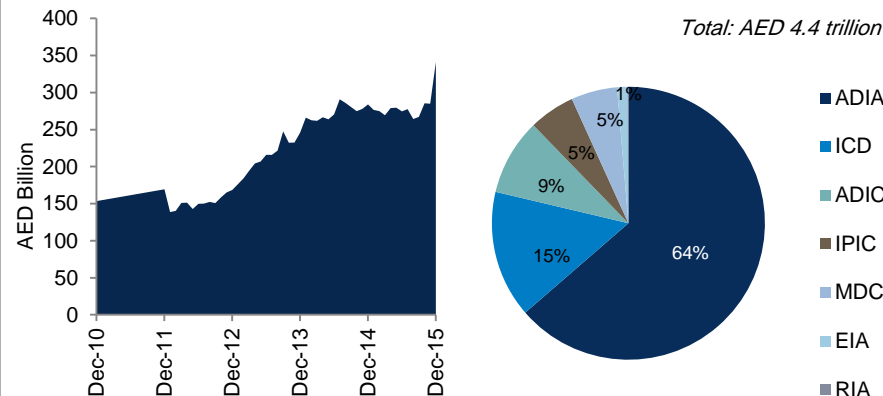
- The IMF expects inflation in the UAE to be about 3.0% in 2016 vis-à-vis 3.7% in 2015
- The UAE's Central Bank holds substantial foreign assets (nearly AED 341.1 billion as of December 2015)
- The UAE's SWFs hold investments worth AED 4.4 trillion (c.\$1.2tr)

Exhibit 34: UAE's inflation versus GCC average



Source: IMF WEO October 2015; Note: Inflation levels represent average consumer prices for the year

Exhibit 35: UAE Central Bank Total Foreign Assets and SWF assets



Source: Central Bank of UAE; SWF updated as of December 2015; ADIA: Abu Dhabi Investment Authority, ICD: Investment Corporation of Dubai, ADIC: Abu Dhabi Investment Council, IPIC: International Petroleum Investment Company, MDC: Mubadala Development Company, EIA: Emirates Investment Authority, RIA: RAK Investment Authority

- يتوقع صندوق النقد الدولي معدل التضخم في دولة الإمارات العربية المتحدة لتكون حوالي 3.0% في عام 2016 مقارنة ب 3.7% في عام 2015
- يحمل البنك المركزي في دولة الإمارات أصول أجنبية كبيرة (حوالي 341.1 مليار درهم كما ورد في ديسمبر 2015)
- صناديق الثروة السيادية في دولة الإمارات العربية المتحدة تمتلك استثمارات بقيمة 4.4 تريليون درهم (c.\$1.2tr)

Selective “risk assets” likely to offer better returns after recent sell-off in global markets

Investors continue to search for positive returns by investing in equity markets with varying results

Exhibit 36: Rout in global equity markets over China's concerns

Markets	Geographies	Indices	Price Performance (%)			
			YTD 2016	YTD 2016	2015	2015
			(Local)	(USD)	(Local)	(USD)
Global	World	MSCI World	-6.1%	-6.1%	-4.3%	-4.3%
EM	Emerging	MSCI EM	-6.5%	-6.5%	-17.0%	-17.0%
Developed	Developed	MSCI DM	-6.1%	-6.1%	-2.7%	-2.7%
	US	S&P 500	-5.1%	-5.1%	-0.7%	-0.7%
	Japan	Nikkei 225	-8.0%	-8.2%	9.1%	8.0%
	Germany	DAX	-8.8%	-9.4%	9.6%	-1.7%
	France	CAC 40	-4.7%	-4.9%	8.5%	-2.5%
	UK	FTSE100	-2.6%	-10.0%	-4.8%	-6.0%
Emerging	China	Shanghai Composite	-22.6%	-23.7%	9.4%	4.7%
	Russia	MICEX Index	1.3%	-1.4%	26.1%	-4.3%
	India	BSE Sensex	-4.8%	-7.1%	-5.0%	-9.3%
	Qatar	DSM	-9.1%	-9.1%	-15.1%	-15.1%
	Dubai	DFMGI	-4.9%	-4.9%	-16.5%	-16.5%
	Singapore	Straits Times	-8.8%	-9.2%	-14.3%	-19.9%
	South Africa	FTSE/JSE Africa Top 40	-3.8%	-6.3%	4.2%	-22.3%
	Abu Dhabi	ADSMI	-5.9%	-5.9%	-4.9%	-4.9%
Frontier	Frontier	MXFM	-6.8%	-6.8%	-17.3%	-17.3%
Others	Saudi Arabia	Tadawul All Share	-13.2%	-13.2%	-17.1%	-17.0%

Source: Bloomberg; Note: Price performance is calculated on an absolute basis; YTD represents as of 31 January 2016

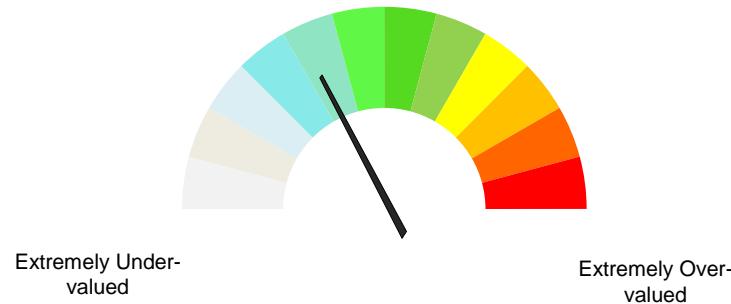
- Global uncertainties triggered a broad sell-off in 2015, which continued in 2016

- التقلبات العالمية أدت إلى عمليات البيع المكثفة في عام 2015، والتي استمرت في عام 2016

Current valuations act as opportunity for investors to increase exposure to fundamentally strong companies

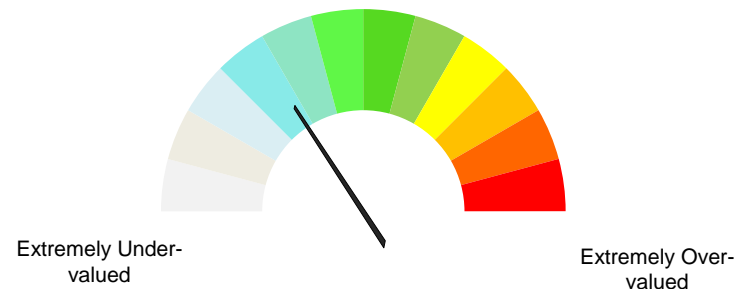
- *Sharp correction after a broad-based recent sell-off provides an attractive entry point*
- *Companies with strong fundamentals and robust dividend policies should continue to perform well*
- *Investors need to “buy and hold” and be patient*

Exhibit 37: Abu Dhabi's market 18.4% below its fair value



Source: ADIB Monthly Valuations Report, January 2016

Exhibit 38: Dubai's market 21.1% below its fair value



Source: ADIB Monthly Valuations Report, January 2016

- التصحيح الحاد للأسواق بعد عمليات البيع الأخيرة توفر نقطة دخول جذابة

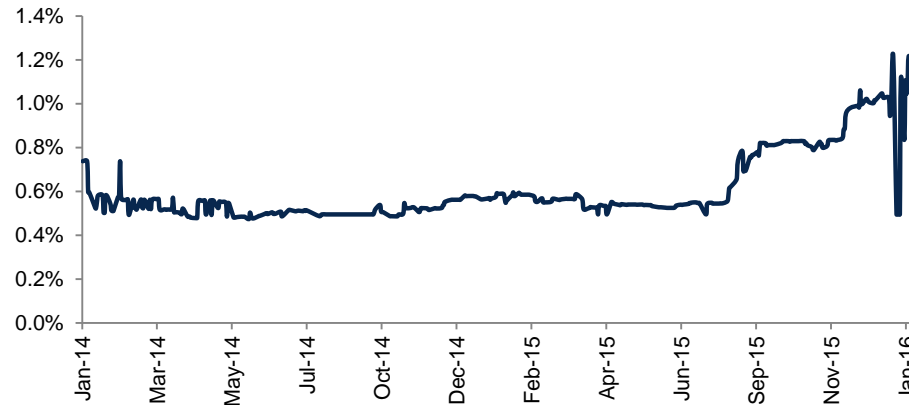
- الشركات ذات الأسس المتينة والتي تنتهج سياسات توزيع أرباح قوية متوقع ان تستمر في الاداء جيدا

- يحتاج المستثمرون إلى “الشراء والانتظار”

Sukuk to remain attractive investment despite market uncertainty

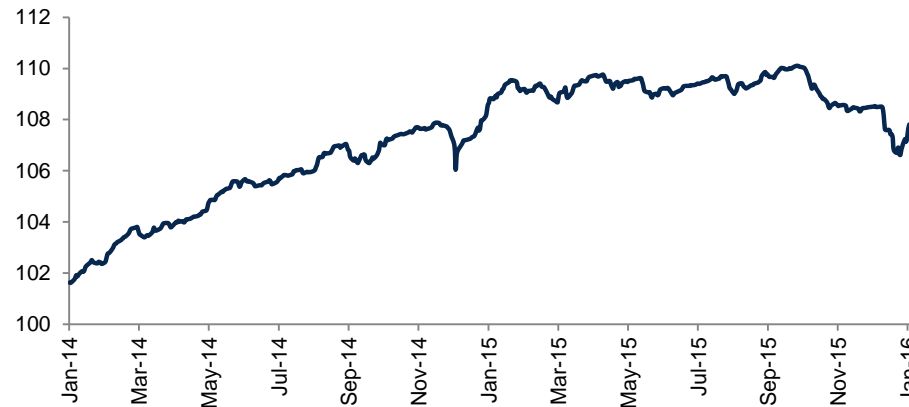
- *Weaker economic growth and funding gaps likely to boost sukuk issuances for MENA/GCC in 2016*

Exhibit 39: UAE's 12-month implied bank deposit rate



Source: Bloomberg

Exhibit 40: S&P MENA Sukuk Total Return Index

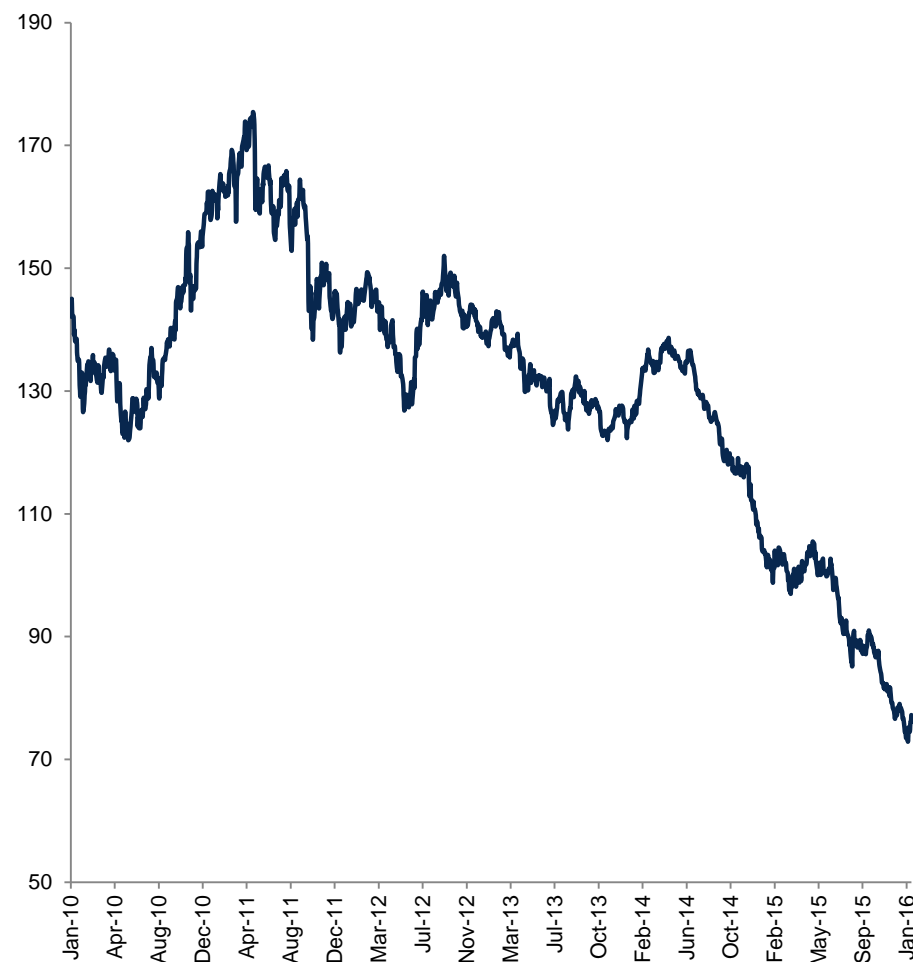


Source: Bloomberg

- ضعف النمو الاقتصادي و الحاجة الى التمويل قد يدعم إصدارات الصكوك في منطقة الشرق الأوسط / دول مجلس التعاون الخليجي في عام 2016

Depreciating Yuan, strong US Dollar, market turmoil in China and abundant supplies to keep commodity prices "lower for longer"

Exhibit 41: Bloomberg Commodity Index ("BCOM Index")



Source: Bloomberg

- *"BCOM Index" fell c.25% in 2015*
- *Slide in commodity prices likely to continue in 2016*

- "مؤشر السلع" سقط حوالي 25% في عام 2015

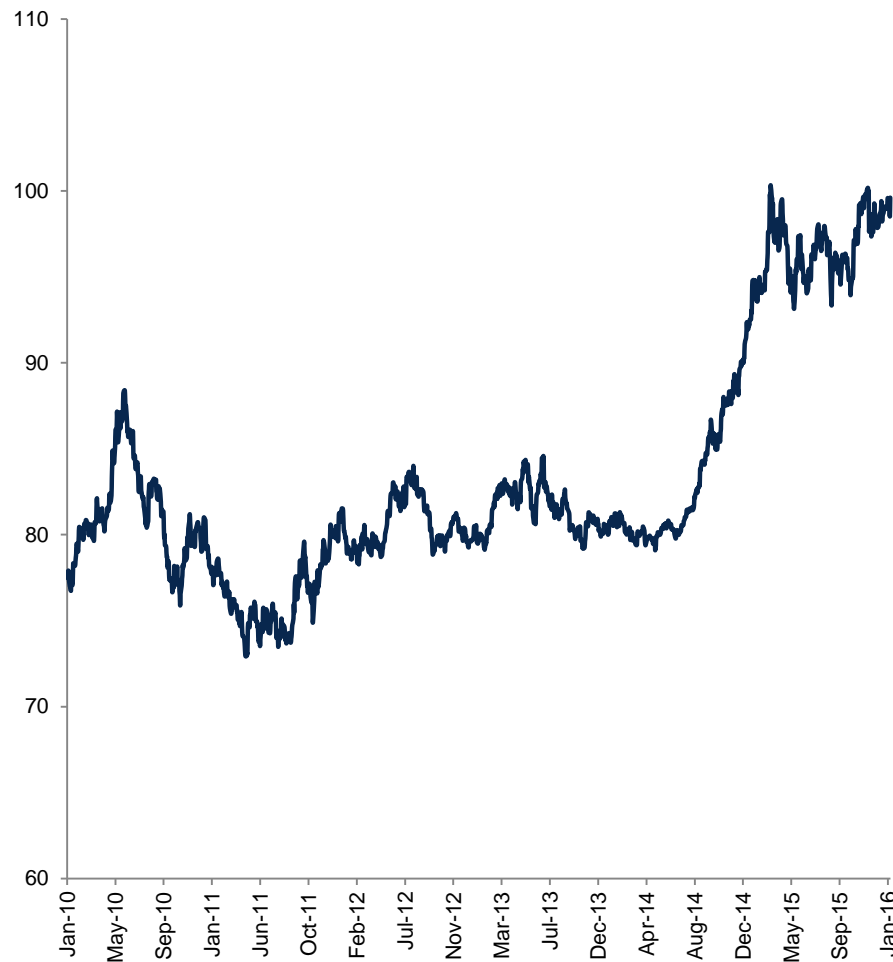
- تراجع أسعار السلع مرجح أن يستمر في عام 2016

Dollar appreciated in 2015 but 2016 will be different

Expected US Fed rate hike and weakening of Yuan supported gains in US Dollar index

- The US Dollar spot index gained around 9% against major currencies in 2015
- Economic recovery, strengthening fundamentals and changing monetary policy in the US to support near-term gains in the dollar
- But US Dollar weakness expected remainder of 2016

Exhibit 42: Dollar spot rate

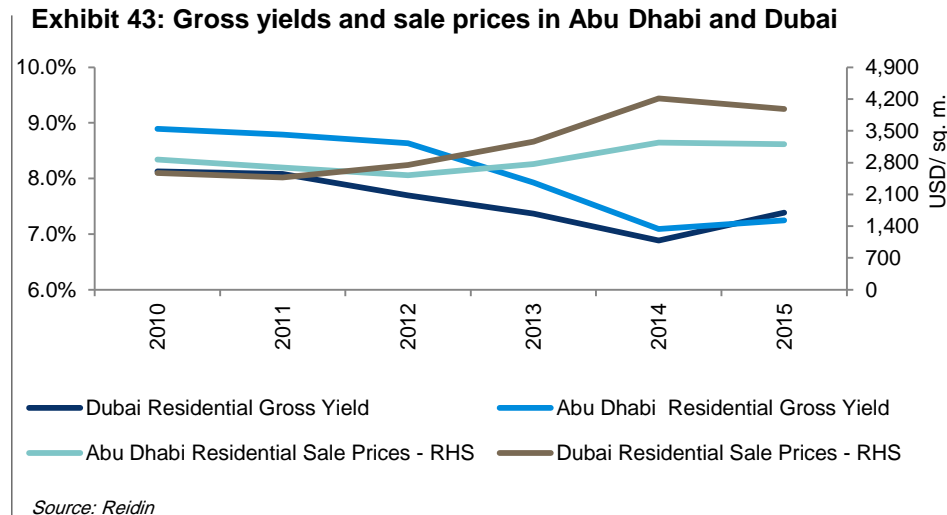


Source: Bloomberg

- ارتفاع مؤشر الدولار الأمريكي بنحو 9% مقابل العملات الرئيسية في عام 2015
- الانتعاش الاقتصادي، وتعزيز الأسس وتغيير السياسة النقدية في الولايات المتحدة لدعم المكاسب على المدى القريب في الدولار
- ضعف الدولار الأمريكي متوقع في عام 2016

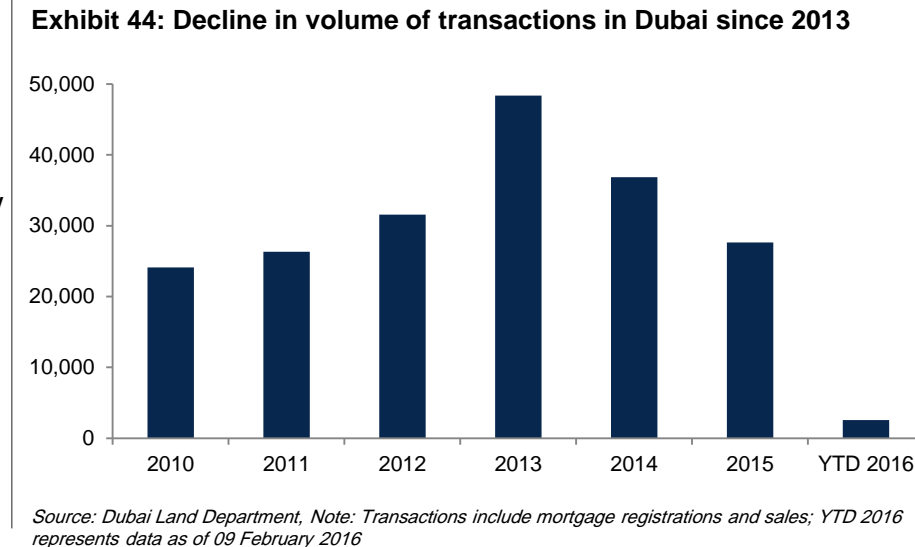
Sales prices to marginally decline with reduction in volume of transactions; rents also likely to fall in 2016

- The UAE's real estate market slowed in 2015 due to decline in investor sentiment



- تباطؤ سوق العقار في دولة الإمارات العربية المتحدة في عام 2015 بسبب تراجع في معنويات المستثمرين

- Subdued economic growth, lower Government spending, falling Oil prices and regional unrest weigh on real-estate sales

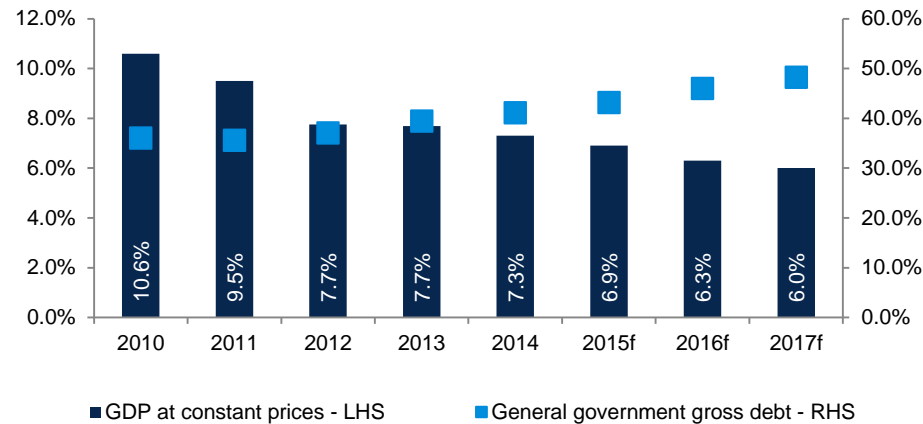


- نمو اقتصادي ضعيف، وخفض الإنفاق الحكومي، وانخفاض أسعار النفط والاضطرابات في المنطقة يؤثر على مبيعات العقارات

Economic slowdown in China, volatility in financial markets and sharp weakness in yuan present risks to our hypothesis

- China's economy slows more than expected

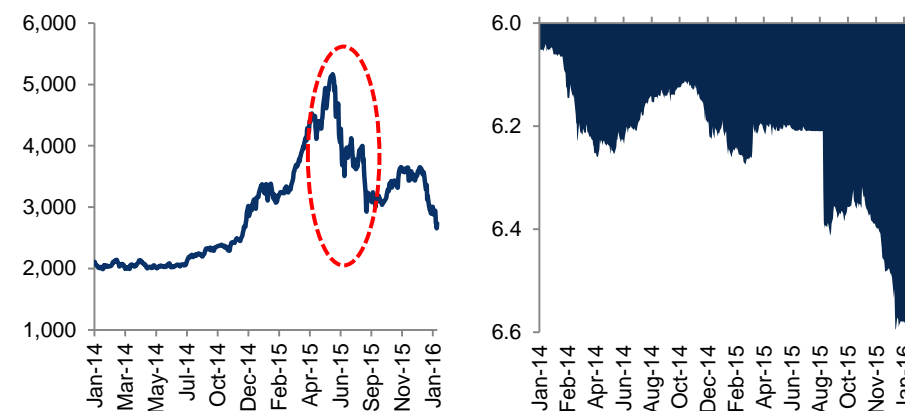
Exhibit 45: Slowdown in China's GDP growth and rising debt levels



Source: IMF WEO October 2015, January 2016

- A decline in China's stock market and depreciating Yuan continue

Exhibit 46: Shanghai Composite Index (LHS) and yuan spot price (RHS)*



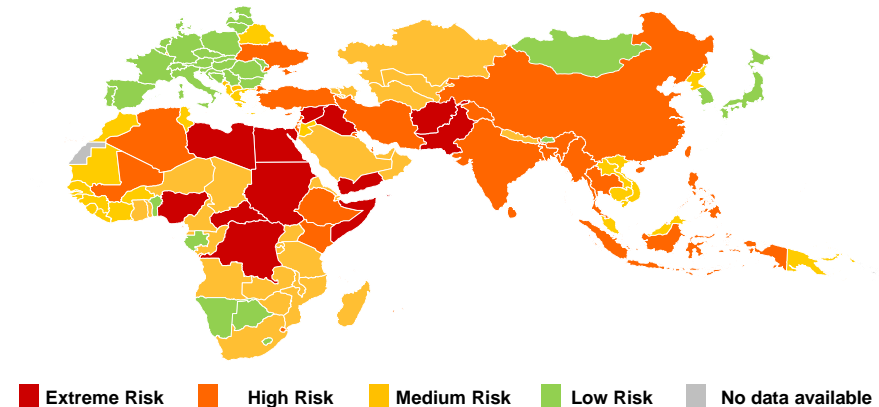
- تراجع الاقتصاد الصيني أكثر من المتوقع

- استمرار انخفاض في اسواق الأوراق المالية في الصين
وخفض قيمة اليوان الصيني

Geopolitical tensions in Middle East and record low oil prices present risks to our hypothesis

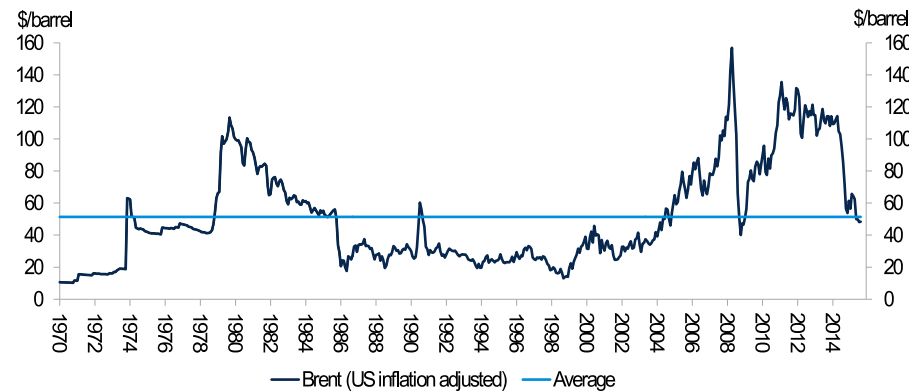
- *Geopolitical uncertainty continues in the Middle East*

Exhibit 47: Maplecroft Political Violence Index 2015



Source: Maplecroft

Exhibit 48: Oil prices at USD 50 per barrel - New norm?



Source: HSBC Economic Outlook for Middle East November 2015 Report

- *Oil prices remain "Lower for Longer"*

- استمرار الغموض الجيوسياسي في الشرق الأوسط

- ستظل أسعار النفط "منخفضة لمدة أطول"

The ADIB 2016 Investment Outlook (in a nutshell)

INVESTORS SHOULD SEEK

- **Equities which will deliver positive returns**
 - *UAE equities - high-quality dividend paying companies are good to own (but are strongly correlated to the Oil price)*
 - *European equities and real-estate – support from QE, modest recovery, better private consumption, weaker Euro, lower Oil prices and easier financial conditions*
- **Corporate Sukuk - offer a decent risk-return pay off**
- **Selective “Private Investments” – to generate meaningful returns, but investors must demand a “premium” for illiquidity**
- **Increased holdings in cash (waiting for opportunities)**

INVESTORS SHOULD AVOID

- **Adding to Gold/Oil exposures (or other Commodities)**
- **Speculative investments in local real-estate**
- **Over-concentrated investment portfolios – i.e. remain well diversified**
- **Excessive levels of leverage**

على المستثمرون أن يسعون إلى

• الأسهم التي سوف تحقق عوائد أعلى

- الأسهم الإماراتية – من الجيد امتلاك أسهم شركات ذات أرباح عالية الجودة (ولكن ترتبط بقوة أسعار النفط)
- الأسهم الأوروبية والعقارات - بدعم من التيسير الكمي، انتعاش متواضع، واستهلاك أفضل من القطاع الخاص، ضعف اليورو، وانخفاض أسعار النفط والأوضاع المالية أسهل

• صكوك الشركات – تقدّم مردود مقبول في منظوم العوائد إلى المخاطر

• «الاستثمارات الخاصة» – تولد عوائد مجزية، ولكن طلب «هامش ربح

أعلى» لانعدام السيولة

على المستثمرين تجنب

- إضافة التعرض إلى الذهب/النفط (أو سلع أخرى)
- المضاربة في استثمارات في الأسواق المحلية العقارية
- التركيز المفرط في المحافظ استثمارية – أي المحافظة على التنوع
- مستويات مفرطة من الرفع المالي

This ADIB 2016 Investment Outlook (“Report”) is prepared by Abu Dhabi Islamic Bank (“ADIB”) PJSC which is regulated by the Central Bank of the United Arab Emirates. This Report is intended for ADIB clients only and is not tailored to the specific investment objectives, financial situation or needs of any specific person or entity that may receive this Report.

This Report is based on publicly available information and is intended for general information purposes only. It is not intended as an offer, solicitation or advice to buy or sell securities or other financial investments mentioned. The information and opinions in this Report are believed to be reliable at the time of publication.

ADIB accepts no liability or legal responsibility for losses or damages incurred from the use of this Report. All opinions and estimates included in this Report constitute ADIB’s judgment to date. ADIB reserves the right to change the opinions expressed in this Report without prior notice.

ADIB believes that an investors decision to buy or sell financial investments depends on individual circumstances, including but not limited to the investors existing holdings, financial standing and other considerations.

Investors should note that investments in securities (including but not limited to equities and sukuk) are subject to various risks including market risk, currency risk, default risk and liquidity risk. Income from such securities and their market value may therefore fluctuate. Investors should take all the above factors into account before making any investment decisions.

This Report contains information that is intended to be conveyed only to the intended recipients. If the reader or recipient of this Report is not the intended recipient, please notify ADIB immediately, and promptly destroy this Report without retaining any portion in any manner. The unauthorized use, dissemination, distribution or reproduction of this Report by any person other than the intended recipient is strictly prohibited.

ADIB may use a different Shari’a compliant investment strategy to invest its own funds based on metrics and models that are not stated in this Report.

ADIB gives no representation or warranty, express or implied as to the completeness of information and opinions expressed in this Report. ADIB is under no obligation to update this Report and has the right to change the Report without prior notice.