Egyptian Gulf Bank Mutual Fund

Quarterly report
Q1-2025

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 822.37
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

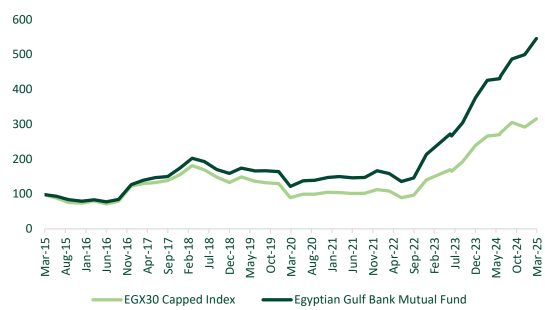
Telephone	19342
Fax	+202-37616848
Website	https://eg-bank.com/

Portfolio

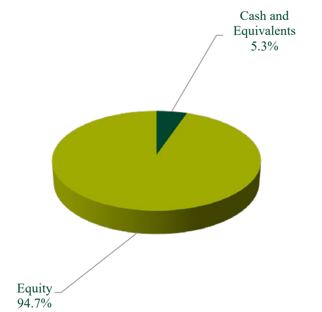
Performance Figures

Date	Return
Q1-2025	9.3%
YTD	9.3%
2024	32.9%
2023	75.9%
5-YTD	347.9%
Since Inception	1965.3%

Relative Performance



Asset Allocation



Market Outlook

US Market

Investors started the year on a positive note optimistic about the current US administration plans to cut taxes, start deregulating the economy, and provide a fiscal expansionary policy. As a result, the S&P increased by 4.5% from the beginning of the year till February 19th to reach an all-time high of 6,144 points.

However, with the eruption of the trade war investors realized that there is a strong policy uncertainty that is starting to have negative economic impact. Corporates started suffering from higher input costs and decided to halt expansion plans given the tariff uncertainty status. This led to a sharp reversal in market expectations, with investors beginning to worry about recession risks as firms started to delay their capital expenditure plans and extend their payment terms which will lead to weaker GDP growth and a drop in corporate profits.

As a result, the market witnessed a strong correction with the S&P dropping 10.1% during the period February 19th to March 13th leading the S&P to go down to 5,522 points. The market later inched upwards to 5,612 points at the end of the quarter to close the quarter down 4.6% from the beginning of the year, and down 8.7% from February 19th peak.

The market later witnessed significant drop of 9.6% in the first week of the second quarter post the US administration decision to impose trade tariffs on every country trading with the US leading the S&P to drop to 5,074 points implying 13.7% decline from the beginning of the year and 17.4% decline from February 19th peak.

We note that in the beginning of the new US administration, investors were taking a balanced risk approach as it was viewed that tariffs will create limited inflationary pressure that will be balanced by higher growth from deregulation policies and tax cuts; however, America's current trade policy is disrupting global supply chains which will limit corporate profits and income growth leading to negative sentiment across many investors. As a result, retail and institutional investors have reached a high level of bearishness, which paved the way for the market to being oversold. However, we note that the cheap can get cheaper as long as investors are not convinced with a clear economic policy towards the future.

We believe that a minor recession is a possibility; however, a severe recession is unlikely, and that once trade war issues is settled the market will resume its upward trajectory on the back of lower policy rates, weaker USD, deregulation and possible tax cuts.

Emerging Markets

Emerging markets had a strong performance in 1Q 25 outpacing the US market for the first time in several years supported by strong shift in investors sentiment towards China with MSCI China increasing by 14.7% during 1Q 25, and MSCI EM increasing by 2.4% only during the same period. We attribute China's and emerging markets outperformance to the US on the back of three main reasons:

1. The US administration trade policy is leading investors to believe that the US is heading into a recession thus the FED will start easing rates. This led to weakening in the USD against other major currencies with the USD index being down by 3.9% since the beginning of the year. We note that weak USD is a critical factor for economic growth in emerging markets and its asset prices.
2. The Chinese government is adopting a fiscal expansionary policy in order to stimulate its domestic demand in light of the US tariffs on Chinese exports to the US. This boosted investors' confidence that the Chinese economy is in the beginning of a recovery mode.
3. The significant outperformance of the US market compared to China over the past years led to significant above average valuation gap, thus global investors are increasing their exposure to Chinese stocks due to limited downside compared to US stocks in case the US economy enters into a recession mode.

Egyptian Market:

The Egyptian market increased by 7.7% during the first quarter of 2025 with most gains achieved in March with the execution of a tender offer on Ezz Steel from its major shareholder in a plan to delist the company, which released around USD600 million to be reinvested in the market thus boosting liquidity and paving the way for the market increase. We believe that Egypt's upward move is normal and in line with the increase in emerging markets.

We note that corporates operating income increased by 57.0% during 2024 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 5.6x implying around 40% 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 much higher pace than average market returns; however, a strong rally in light of 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 on the short term, yet it has negative long-term implications as the market keeps shrinking in terms of breadth and diversity.