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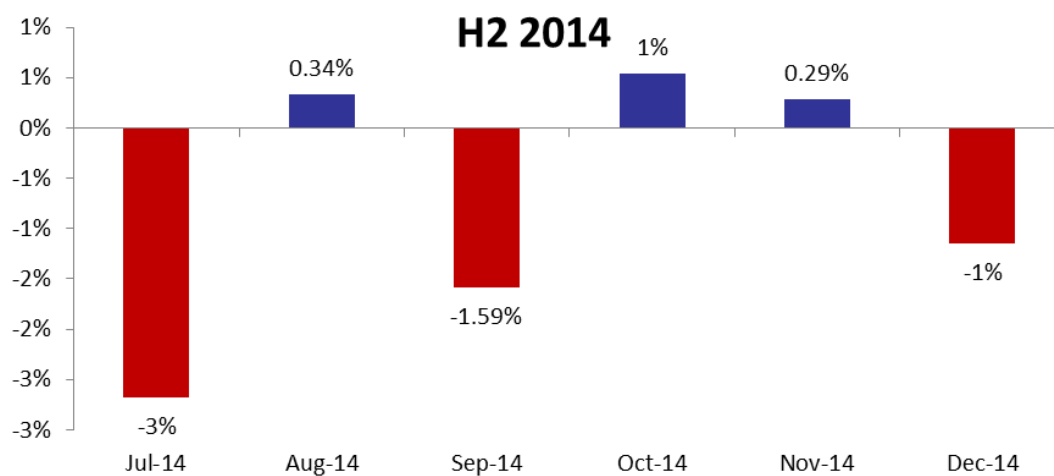
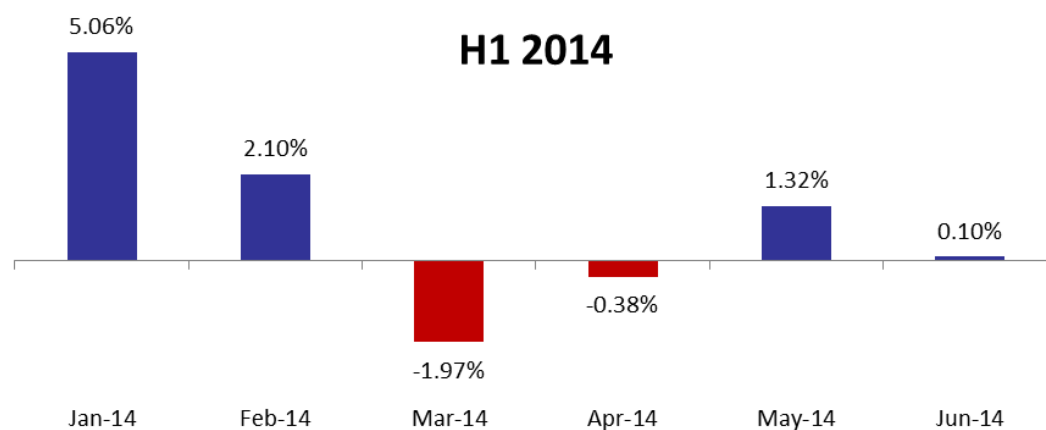
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Performance of the BLOM Stock Index in 2014



Monthly changes in the BLOM Stock Index



Blominvest Research Department

Source:

2014 is a live testimony that one event can mean different things in different areas of the globe. The supply glut on the oil market slashed prices by half since June 2014. For the US, this meant lower oil prices at the pump and therefore higher consumer confidence but it also means less pressure on inflation and therefore more time until the Federal reserve decides to increase interest rates. This same event threatened Saudi Arabia's public finances and its stream of hefty oil revenues.

2014 has also extended the gaps that were drawn back in 2013. While the Federal Reserve brought its quantitative easing program to a halt in 2014, talks sparked about the ECB starting its own bond-buying program to avoid the risks of deflation. While the US economy has shown signs of a strong recovery with unemployment falling below 6%, Europe continues to struggle to regain economic momentum.

These gaps have been mirrored on equity markets. The S&P 500 grew by 11% to end the year at 2,059 points while the Euro Stoxx 50 grew by a slight 1.2% to 3,146 points.

For Chinese equities, the year 2014 was described under the titles of a "super-bull" and "irrational exuberance" by the Economist. The Shanghai Composite Index skyrocketed by a yearly 53% to end the year 2014 at 3,235 points. Many reasons lie behind the excitement on the stock market: The looser monetary policy, the cut in interest rates and the opening of the Chinese market to foreign investors through the Shanghai-Hong Kong Stock Connect Program (previously the market was only open to certain institutional investors). However, 2015 holds the answers to the key concerns over this rally: First, investors are using borrowed money and second this upward climb is much similar to the picture painted back in 2006-2007 after which the market crashed.

The Japanese stock market seems to have reacted positively to "Abenomics" with the Nikkei Index rising by 7% to 17,451 points at end 2014. The surprise increase in the emergency stimulus program, according to which the Bank of Japan buys most of the bonds issued by the government in order to allow it to revive demand through increased spending, sent positive vibes across the market.

Russia's stock market was driven by politics and by economics. The Micex ended the year with a 7% yearly drop mainly on the back of Russia's intervention in Crimea and on the back of the energy crisis which weighed negatively on the Russian Ruble. Since energy is a main component of Russia's exports, lower oil prices, (Brent Crude Energy Future contracts shrunk from \$110.80 at the end of 2013 to \$57.33 at the end of 2014), resulted in the Russian Ruble losing ground against the dollar.

Arab bourses also posted contrasting performances. The biggest winner for 2014 was Egypt's EGX 30 with a 31.6% yearly upturn. In fact, the EGX30 is finally approaching its 2008 levels after Egypt formalized a reform plan (Housing, removing oil subsidies...etc), an essential step towards getting the country back on its feet after the Arab Spring upheaval. The second best performer of the year was Qatar with an 18% upturn and was followed by Bahrain with a 14.2% increase. Meanwhile, the biggest loser was Kuwait with a market drop of 13.4%, followed by the Muscat Exchange which shed 7.2%, and Saudi Arabia with a loss of 2.4%.

As for Lebanon, the main market movers continued to be the political and security situations. The BLOM Stock Index (BSI) ended the year 2014 at 1,170.26 points, constituting a timid 1.75% yearly upturn. Over the past year, the BSI has had many ups and downs depending on the political and security developments. These movements are detailed below.

The first half of 2014 (H1 2014) was a positive one for the BSI as it registered a solid 6.24% gain. The main boost came from the first two months of 2014 where the anticipation and the eventual formation of a cabinet set a positive tone on the Beirut Stock Exchange and led to the BSI gaining a monthly 5.06% in January and 2.10% in February.

The negative series of events that followed weakened the BSI but were not enough to reverse the positive performance over the entire first six months of the year. For the rest of H1 2014 the BSI either slid in the red or barely inched up as clashes in Tripoli, the new rent-law controversy, the pay scale issue for public sector employees and the end of President Michel Sleiman's term with no successor in-sight, dampened market optimism.

Most of the gains recorded in H1 2014 were erased in H2, where the BSI posted a 4% loss. Indeed, the Beirut Stock Exchange suffered from the precarious political, security and economic backdrops.

The June bombings of Dahr el Baydar and Tayyouneh were priced in the BSI during the month of July where the index posted a 3% monthly drop to 1,189.09 points. The subdued tone of the market was also the result of political stalemate which prevented the election of a president for the second consecutive month.

The month of August also had its share of turmoil as clashes erupted between the Lebanese army and militants in Aarsal and as some Lebanese soldiers were held captive. The BSI posted minor upward and downward movements during the month, signaling an obvious sense of hesitancy and unease on the market. The BSI managed to end the month of August with a timid monthly uptick of 0.34% to 1,193.09 points.

Whatever strength the Lebanese gauge held on to during the month of August was gone in September as an 11th failure to elect a new president dampened sentiment on the Beirut Stock Exchange. The presidential seat had remained vacant since the end of the ex-president's term on May 25. Moreover, on September 20th, two army soldiers were killed near the border with Syria. The BSI closed at 1,174.13 points in September, a 1.59% downturn.

October can be described as a "status quo" month, where no major advancements have been made on the political front. This is what may have allowed the BSI to recoup some of the losses it recorded back in September. At the end of October, the BSI gained 0.54% to close at 1,180.48 points.

The index failed to record a similar or higher gain in November as political hurdles prevented the scheduled parliamentary elections to be held which eventually led to the parliament extending its own mandate. The BSI therefore ended the month of November at 1,183.90 points, a 0.29% gain only.

The index closed in the red for the last month of 2014 with a monthly loss of 1.15% and a value of 1,170.26 points. As the year came to a close, givens have not changed but were worsened. The presidential seat remained vacant and the security situation continued to be threatened and fragile. On December 6th, Al Nusra front announced the killing of a Lebanese soldier in captivity. The presidential seat and the issue of the Lebanese soldiers held hostage by extremists remain unresolved at the time of writing.

By the end of 2014, 29 stocks were listed on the Beirut Stock Exchange as compared to 28 stocks the past year. The market capitalization rose by a yearly 6.25% to end the year at \$9.78B. In 2014, the number of outstanding shares amounted to 1,552,168,084.

In the first half of 2014, 200,000 BEMO Bank preferred shares class 2006 were de-listed, 350,000 Bank BEMO preferred shares 2013 were listed and 476,260 additional Audi GDR shares were listed.

As of September 30, 2014 /50,000,000/ additional common shares were issued by Bank Audi SAL. As of October 16th, /4,762,000/ Bank of Beirut Priority Shares Class 2014 were listed on the stock market. The Beirut Stock Exchange decided to list, as of December 1, 2014, an additional /13,021,942/ GDRs linked to the shares of Bank Audi SAL. These GDRs will be added to the previously listed /102,493,911/ GDRs, therefore, the total number of listed GDRs linked to the shares of Bank Audi SAL becomes /115,515,853/.

The top three performing shares were BLOM GDR, gaining 11.36% to \$9.80, BLOM Listed shares, rising by 6.67% to \$8.80 and Ciments Blanc Bearer shares with an upturn of 7.14% to \$3.75. As for the worst performers, they were Ciments Blanc Nominal with a loss of 15.12% to \$2.75, BLC listed shares which shed 12.82% to \$1.70 and Rymco's listed shares which declined by 7.71% to \$3.23.

From a technical point of view, the relative strength index (RSI) for the BSI stood at 48.24 on January 16th 2015. Since the RSI is between the 30 and 70 mark, the BSI is neither overvalued nor undervalued. The future movements of the index will yet again be dependent on political and social developments in the country.

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