# Faisal Islamic Bank of Egypt Fund

## Quarterly report
## Q3-2026

### 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.

All investments must be approved by the Sharia Board of the fund.

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 first business day of every week.

### Fund Details

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|---|---|
| Type of Scheme | Open Ended |
| Inception date | December 2004 |
| IC price | EGP 573.94 |
| Dividends Since Inception | EGP 95.75 |
| Bloomberg Ticker | EFGFISL |
| Reuters Lipper Code | 65077570 |

### Fund Manager

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| Management company | Hermes Fund Management |
| Fund Manager | Nabil Moussa |

### Contact Details

Faisal Islamic Bank of Egypt

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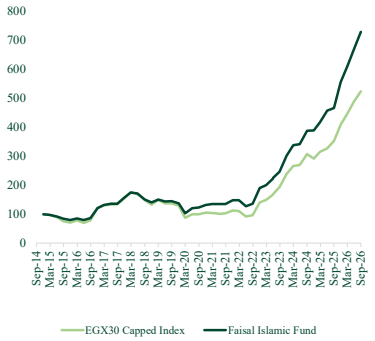
| Telephone | 19851 |
| Fax | +202-37621281 |
| Website | http://www.faisalbank.com.eg |

## Portfolio

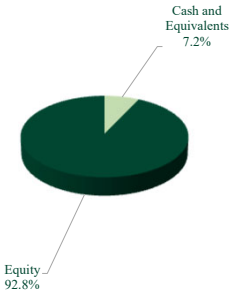
### Performance Figures

| Date | Return |
|---|---|
| Q3-2026 | 8.6% |
| YTD | 31.0% |
| 2025 | 43.1% |
| 2024 | 28.7% |
| 5-YTD | 436.7% |
| Since Inception | 992.4% |

### Relative Performance




### Asset Allocation




## Market Outlook

**US Market**

The US market increased by 2.0% in 3Q26, bringing its YTD gains to 11.8%. We note that this growth was mainly driven by a strong rally in the MAG7 stocks, which increased by 11.5% during the quarter following strong earnings beats and positive outlook supported by the AI trade. We highlight that around 86% of companies in the S&P500 reported EPS above consensus estimates in 2Q26, which helped push the market to an all-time high of 7,799 points as of August 13th, 2026. However, the re-escalation of tensions between the US and Iran, which led to a spike in oil prices and increased prospects of higher inflation, prompted the Fed to hike rates for the first time since July 2023.

We note that currently the market pricing in four additional hikes over the remainder of 2026 and 2027, taking the overnight rate from 3.75% to 4.75%. This assumption is based on an outlook in which inflation remains sticky while growth stays resilient, supported by the AI investment cycle. Accordingly, the market expects the Fed to continue hiking rates.

We agree with the direction of this view; however, we differ on the magnitude of the expected hikes. We lean more towards two additional hikes over the next two quarters, taking the fed funds rate to 4.25%. We acknowledge that the bond market is currently reflecting expectations of higher rates, but given that inflation is running at around half the levels seen in 2022 and 2023, we believe the forward market is being excessive in pricing four additional rate hikes.

We believe that the market's resilient performance despite the increase in inflation and the surge in bond yields is largely due to the fact that, while rising bond yields compress equity valuation multiples, the significant gains in corporate profitability have largely supported stock prices.

Going forward, we believe stocks will be more vulnerable to bond yields, as further increases from current levels could raise concerns that the Fed may overtighten, potentially causing a recession. However, we are more inclined to expect a modest correction followed by sideways market movement until inflation begins to decline in the coming months, which should convince the market that excessive rate hikes are unnecessary.

**Emerging Markets**

Emerging markets declined by 1.0% in 3Q26, thus reducing their YTD gains to 21.4%. This performance can be considered relatively resilient given the re-escalation of the US-Iran war and the associated global inflation pressures, which prompted a shift in the Fed's monetary policy stance towards tightening, leading investors to reduce their exposure to emerging markets.

We note that the South Korean and Indian markets were the main drags on the MSCI EM index, while China and Taiwan demonstrated greater resilience during the quarter. The correction in the South Korean market can be considered a normal adjustment given that it remains the best performing market in 2026.

| Market | Index Weight | Quarterly Performance | YTD Performance |
|---|---|---|---|
| Taiwan | 28.90% | 4.00% | 68.20% |
| South Korea | 21.40% | -10.30% | 95.60% |
| China | 19.80% | 2.90% | -13.40% |
| India | 10.70% | -6.20% | -15.70% |

We note that the MSCI EM index is currently trading at a P/E (26e) of 11.5x and a P/E (27f) of 9.2x, representing around 30% discount to its historical average and 50% discount to the US market. We believe these discounts reflect investors' concerns regarding the global monetary policy outlook. We expect the valuation gap to narrow once inflation begins to ease, thereby boosting investor confidence that aggressive interest rate hikes will not be necessary.

**Egyptian Market:**

The Egyptian market increased by 2.8% during the quarter, thus boosting its YTD gains to 24.1%. However, we note that the EGP has lost 8.2% of its value since the beginning of 2026, limiting the market's YTD gains to 13.9% in USD terms.

Corporate profits increased by 31.4% during the first half of 2026. However, we expect earnings growth to moderate to approximately 20-25% for the full year, implying that the market's performance has been broadly in line with corporate earnings growth.

Despite the market's solid performance, we note that the gains were primarily driven by small-cap stocks rather than large-cap stocks, which were negatively affected by foreign outflows in emerging markets. This is evident as the market's main index EGX30, increased by 17.7% in the first two months of 2026, while the EGX70 declined by 6.3% over the same period. However, following the outbreak of the US-Iran war, foreign investors began reducing their exposure to the Egyptian market, while retail investors increasingly dominated trading activity. This shift resulted in a 51.5% increase in the EGX70 during the period March – September, compared to a mere 5.4% increase in the EGX30.

The Egyptian market is currently trading at P/E (26e) of 9.6x which is almost identical to its historical average. We expect the market to move sideways for the remainder of 2026 before advancing by 25-30% in 2027, supported by our estimates of corporate earnings growth and assuming valuation multiples remain unchanged.

Finally, we note that even within EGX30, the outperformance was largely driven by relatively smaller-cap stocks rather than large-cap stocks. However, we expect market gains to be increasingly concentrated in large-cap stocks given their relative underperformance in 2026 and their strong earnings outlook in 2027.