

North Africa / Middle East Underperformed Before Revolutions

I expressed an opinion to a class just after the 9/11 attacks that through the long lens of history the events of that week and the retaliation sure to follow would one day be viewed as a continuation of the Crusades and the long struggle between Europe and the Ottoman Turks.

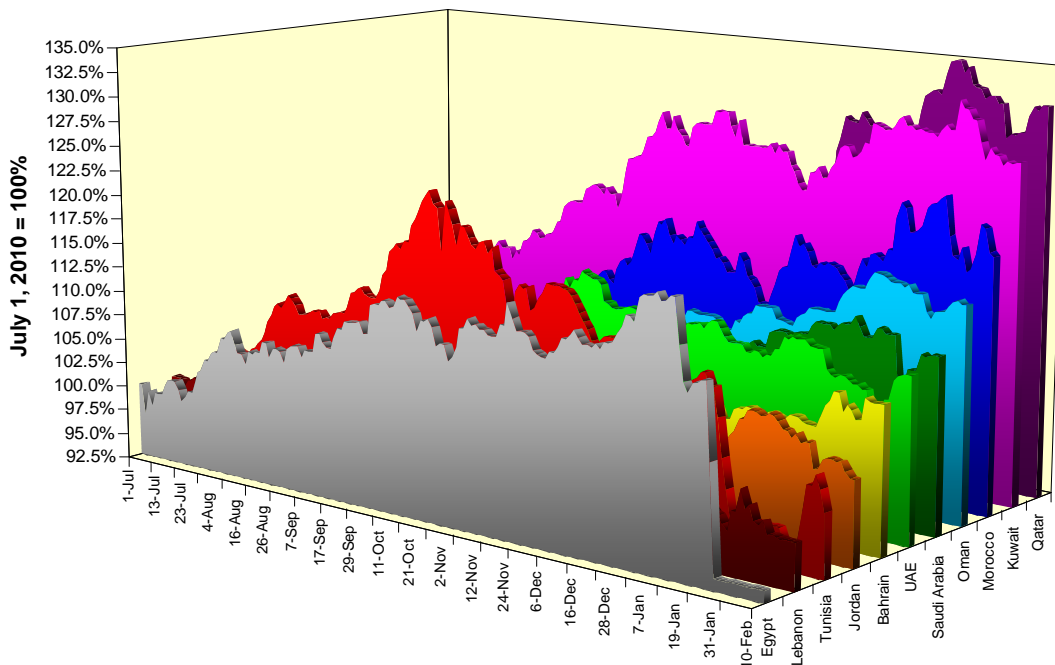
Consider this: If I said, “ancient Egypt” to you, what [images](#) pop into your head? Now take the time-span between the construction of the Great Pyramid, c. 2560 BC and Cleopatra VII, who met her end in 30 BC and subtract it from our 2010 AD. You get 520 BC, thirty years before the battle of Marathon. The age of the pharaohs lasted an extraordinarily long time and yet we can compress it into a few mental images.

Now switch your viewpoint from Western eyes to Middle Eastern ones. Sometime in the sixteenth or seventeenth centuries the center of civilization in the region began shifting from you to those folks from Northern Europe you once referred to collectively as “Franks.” The world was turning upside-down and from this viewpoint has yet to right itself.

North Africa / Middle East Markets

The MSCI-Barra index for Emerging Europe and the Middle East began a long rally at the start of July 2010. Let’s map the total return of selected North Africa and Middle East Market in USD terms from that point through Mubarak’s exit.

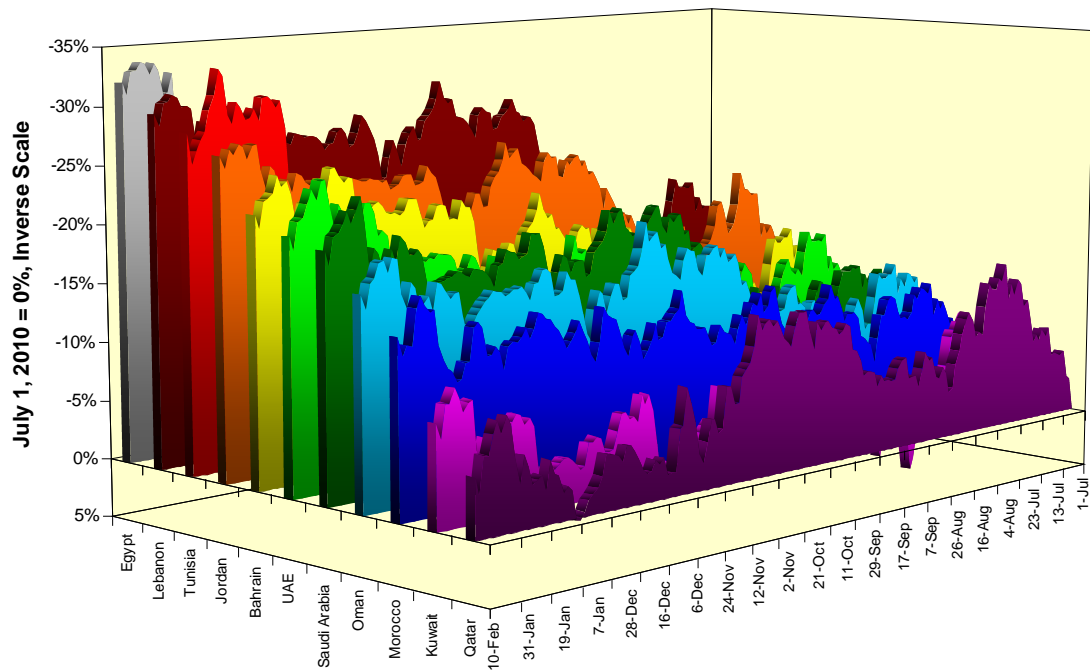
**Total Return, Selected North Africa / Middle East Markets
USD Terms**



The gains are, by themselves, impressive. Only Egypt, Lebanon and Tunisia incurred absolute losses, all for obvious reasons of political instability (the Palestine al Quds index lost 4.3% on price basis over this period, but *Bloomberg* does not calculate a total return).

Now let’s express the same performance set relative to the MSCI index. The Z-axis is inverted for visual clarity as all of the incremental total returns save a few observations for the Qatari market are negative.

**Incremental Total Return, Selected North Africa / Middle East Markets
USD Terms Vs. MSCI Emerging Europe & Middle East**



Wait, you say, I thought all of these returns were supposed to be correlated, that differentiation of returns was a waste of time and that I could simply buy an emerging market ETF such as the iShares MSCI Emerging Markets index and call it a day. The evidence here is unequivocal: Even within a regional index, you have massive differentiation of return. Not only did these North Africa / Middle East indices underperform the MSCI regional index, they clearly differed from one another.

This is similar to the argument I have made for years about [commodities and currencies](#): There are no such things as “commodities” or “the dollar,” but as absolutely no one believes me, I get to keep making the same argument.

Finally, consider the amazing implication of this diversification of return: North Africa and the Middle East were underperforming before the regime changes in Egypt and Tunisia. The region is identified with crude oil, the price of Dubai crude oil rose 35% over this period, Eastern Europe had to contend with the sovereign credit circular firing squad in the Eurozone and yet it still underperformed within the MSCI regional index.

It sounds like a region to avoid for now and, depending on the focal length of your history lens, for a long time to come.