North Africa/Middle East After Crude Oil's Low

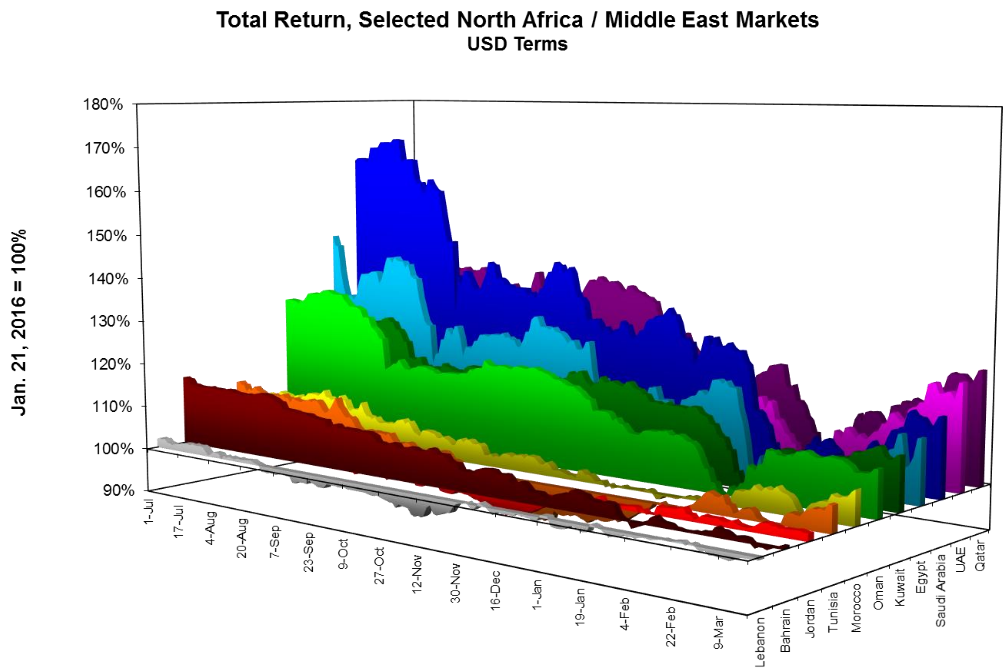
Baron Rothschild's famous dictum to buy when there is blood in the streets was based on the implicit assumption this was an abnormal state of affairs. As a fairly steady stream of bombings, shootings and stabbings populate our news with distressing regularity, we probably should revisit this advice. We believe culturally peace is the normal state of affairs and violence is the aberration. In reality, we have to work very hard to achieve even momentary periods of peace while we lapse into bloodshed with the greatest of ease.

North Africa and the Middle East are associated indelibly with crude oil production and, alas, with political violence. No event there has taken place for the past forty-five or so years without the question of what will happen to crude oil prices in response. In addition the resource curse, the distortion of economies by the ready availability of cash from crude oil exports has affected many of these thinly populated countries' economies and political structures for the worse.

Performance Since January's Crude Oil Low

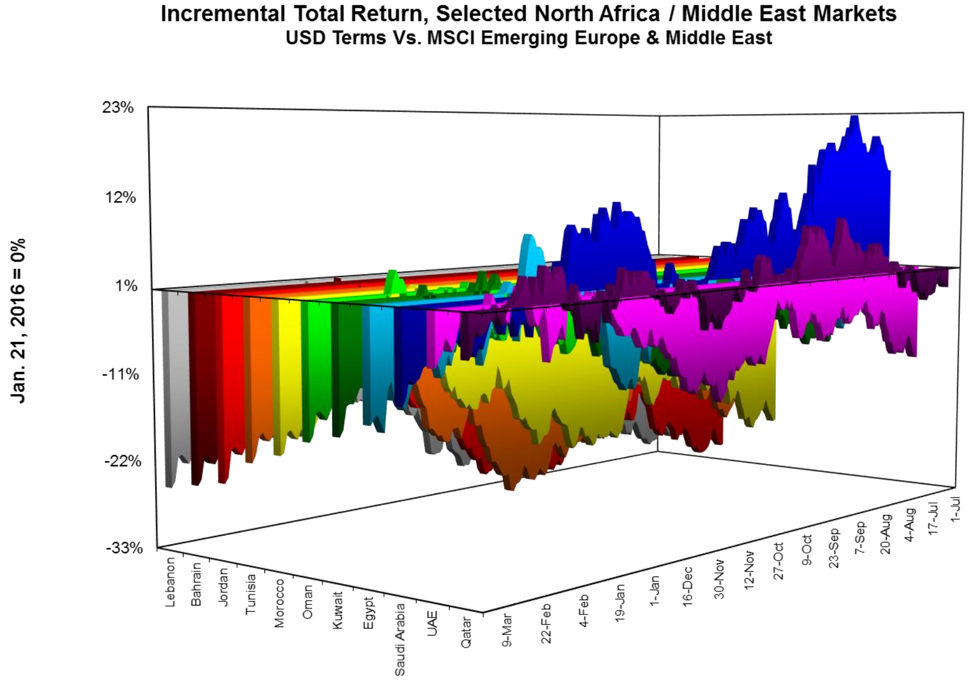
Dubai Fateh Blend bottomed on January 21, 2016 and has advanced 67.5% since then. The MSCI Emerging Europe & Middle East (EEMEA) has returned 31.6% in USD terms over the same period. How have selected North Africa / Middle East equity markets performed in USD terms both on an absolute basis and relative to the EEMEA index since then?

Only Lebanon's national market has declined in USD terms over this short data sample. The largest gains have come in Qatar, the United Arab Emirates and Saudi Arabia, respectively.



However, if we rearrange the data to display the individual national markets' performance relative to the EEMEA index, we find none of the markets have outperformed the EEMEA. Eastern European markets in general and Russia in particular have benefited not only from the rebound in crude oil but from upturns in their currencies against both the USD and EUR as well.

Anyone who wished to bet on higher crude oil prices in January could have done so through energy-sector high-yield bonds, exploration & production stocks or even currencies such as the Colombian peso without having to venture in North African/Middle Eastern equities.



I should add on a final note this resource curse once had the name of "the Dutch disease" in reference to how the discovery of massive natural gas deposits after World War II led to an expansion of social welfare spending. The same phenomenon has played out on a worse scale in Venezuela. One of the great and least-remarked accidents of U.S. history is how the discovery of large crude oil deposits came after the country was well on its way from transforming from an agricultural to an industrial economy. Crude oil became the fuel of growth as well as a well as a source of easy money for those perched on top of it.