

# EYES ON MARKETS

## GLOBAL MARKETS

While macro and rates expectations may have peaked for now, the most significant threat is that DM Central Banks turn even more hawkish, should they perceive that inflation won't be tamed without materially slowing growth down due to skyrocketing oil prices. Besides, inflation expectations have yet to peak. This creates a challenge: the Fed and equity markets might be on a potential collision course if it sticks to its current stance until markets sell off, while markets have little if no upside unless the Fed makes a dovish pivot.

The Russian invasion of Ukraine will certainly cause a short-term confidence shock in Europe impacting domestic demand. Inflationary pressures resulting from higher energy and food prices will hit households' disposable income as well as business expenditure. But with much weaker economic links with Russia and Ukraine than in past years, any European downturn should be contained by services sector's anchored growth.

After the oil crisis in 1974, importing countries developed domestic oilfields and alternative energy sources. The resulting most drastic decline in oil consumption ever seen at the time would represent a serious threat to Russia today, should it seek to use its position as an energy supplier as geopolitical leverage. While Europe needs Russia's gas, Russia is far more dependent on European customers.

Emerging Markets have a chance to outperform this year, having struggled from the combination of high inflation, tighter monetary policy, a slower recovery from Covid and China's crackdown on Tech and Real Estate. This has left valuations at extremely depressed levels, while sabre-rattling in DM, underexposed positioning and in some cases more appealing fundamentals have already started to attract renewed investors' interest for EM.

## REGIONAL MARKETS

During 2022 S&P Shariah GCC Total Return Index (SPSHGT) was up 11.1% wherein Qatar and Saudi Arabia were the outperformers i.e. up by 13% and 11.4% respectively. Oman, Bahrain, UAE and Kuwait were the under-performers generating returns of -4.1%, 0.5%, 8.1% and 10.6% respectively.

S&P Saudi Shariah SAR Total Return Index (SPSHSART Index) increased YTD by 11.4% as cumulative inflows in the Net Foreign Portfolio Investment (NFPI) exceeded at USD3.2bn for the year. Local cement sales recorded 2.3% YoY decline in January, on the back of slowdown in mortgage activity. PMI for February 2022 increased to 56.2 from 53.2 in January, banking deposits grew 8.9% YoY in January 2022 vs 8.3%

in December 2021, inflation remained flat at 1.2% vs December and value of POS + ATM transactions per terminal decreased by 17.8% YoY in January vs -16.1% in December. Moody's Investors Service assigned an A1 long-term issuer rating to the Public Investment Fund, marking the agency's first rating of the Saudi wealth fund.

YTD GCC markets mainly UAE, Qatar and Kuwait registered USD2,396mn worth of inflows from NFPI, while UAE announced 9% corporate income tax for income exceeding USD100k effective 1-Jun 2023. Simultaneously, UAE clarified that no individual income tax is being contemplated. UAE PMI decreased to 54.1 in January from 55.6 in December while Dubai's PMI clocked 52.6 in January vs 55.3 in December. Subsequently, local energy prices in UAE for February registered 12.5% and Dubai announced 30% cut in emissions by 2030. Lastly, UAE further relaxed COVID-19 related restrictions to boost the local economy. Oman sovereign debt raising to the tune of USD4.0billion was witnessed while it signed USD245million projects related loans with Saudi Arabia and renewed the urea export agreement with India. Kuwait declared consolidated statistics for its liabilities towards public entities that stands at USD7.8billion. Bahrain introduced a new permanent residency visa to attract talent and investment and laid the foundation stone for the United States Trade Zone, or USTZ, at the Salman Industrial City. Following in UAE footsteps Bahrain also relaxed COVID-19 restrictions to boost the local economic activity.

Brent recorded sharp increase of 10.7% in February, while MSCI Emerging Market Index decreased by 3.1% and MSCI World Index registered 2.6% depreciation. 4 IPOs were announced in February on main / parallel Saudi markets as the sentiment remained upbeat. Bloomberg Commodity TR Index also registered 6.2% increase during the month as COVID-19 recovery picked up pace. Till March 3, 2022 69% of Saudi Market Capitalization announced corporate results depicting 60% YoY and 2.3% QoQ growth.

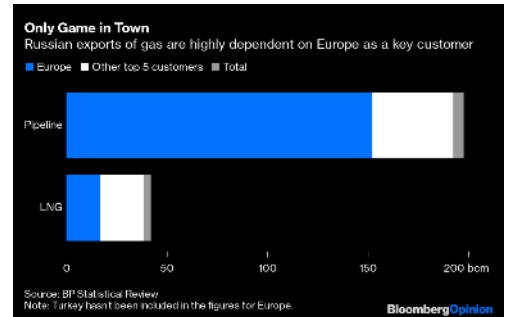
Global economic outlook suddenly took an uncertain turn when political turmoil started in Eastern Europe. Following up on that commodities, especially energy related, spiked up increasing the chances of global recession in 2nd half of 2022. Similar concerns were depicted by US FED in their slightly dovish statement on rate hike. Political surprises may cause amplified volatility both in commodities and equity markets. In the Saudi context, prevailing oil prices offer a great opportunity to beef up reserves so expecting extraordinary fiscal space may not be feasible rather marginal spending boost is more likely.

## Inflation – Catching Up And Down



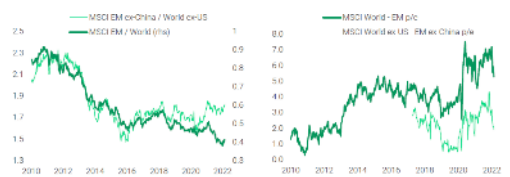
Source: TSLombard

## Geopolitics – Don't Stretch It Too Far



Source: Bloomberg

## EM Equities – Not Only China



Source: TSLombard

## GLOBAL MARKET INDICES

Region/Sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2018 (%)	2019 (%)	2020 (%)
World	DJIM World TR	8468.7	(1)	(11.9)	3.6	18.7	16.4	14.4	11.1	30.9	28.2	19.7
Developed	DJIDEV TR	4811.8	(0.0)	(11.3)	7.9	20.4	17.6	15.1	11.9	31.6	27.4	23
Emerging Markets	DJIEMG TR	5292.6	(0.7)	(8.3)	(18.3)	11	10	10.3	5.3	22.7	35.3	(4.7)
Saudi	TASI	12654.7	0.5	13	36.8	31.2	14.2	12.7	5.7	7.2	4.4	27.9
NAREIT	All REITS (EM Inc) TR	3253.1	0.1	(7.2)	10.5	4.9	5.1	6.1	7	23.6	(9.2)	23
GSCI	All Commodities	746.1	10.8	32.9	58.1	42.2	21	13.5	0.6	16.5	(6.1)	37.1
Currencies	Euro	1.1119	(0.9)	(2.2)	(8)	(0.1)	(0.7)	1.1	(1.7)	(2.2)	8.9	(6.9)
	Yen	115.52	(0.5)	(0.4)	(7.6)	(3.2)	(1.1)	(0.2)	(3.4)	1	5.2	(10.3)
	GBP	1.3406	(0.1)	(0.9)	(3.9)	2.5	0.5	1.9	(0.1)	3.9	3.1	(1)

Source: Global Data as end of 2 March 2022. Saudi Market Data as end of 2 March 2022.

\* All values beyond 1 year are annualized

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