



EYES ON MARKETS

GLOBAL MARKETS

Is a recession inevitable? Yes. It should be mild, though, inflation permitting. Tight financial conditions will hit households' incomes, corporate margins, employment, and wages. China's reopening will provide a cushion, Europe's crisis may be less harsh, US's resilience may surprise, commodities should stabilise, geopolitics may help - for once.

Will inflation fall and stay low? No. It will subside, but not collapse - unless the growth downturn proves deeper than expected, causing unemployment to soar across DMs. A US soft landing, China's slow-grinding rebound, and a supply-driven floor on commodities prices will in fact keep inflation higher for longer.

Will rates go down and stay low? No. The Fed will only cut below 3-4% if a hard landing is in the making, and some financial accidents with it. The US Treasury curve's inversion is a sign of the times - not necessarily of how bad they will be.

Will the US Dollar weaken further? Yes. But it's conditional on rates going down faster than elsewhere while growth staying resilient. Risk-on triggers might be Europe's own resilience as much as China's bumpy acceleration toward a post-ZCP world

Will equity markets get worse before getting better? Best case: linger on through a shaky H1, then take off in H2 on rates. Worst case: as Q1 is always the time of reckoning for corporates and households, new lows may be in on margins and jobs.

How to position? The next bull market will be about greater opportunities outside the US. In H1 2023 stay focused on being defensive, not in safety-first mode. In H2 turn bold, even aggressive. And as always, "Don't fight the Fed". Ever.

REGIONAL MARKETS

YTD S&P GCC Shariah Total Return index registered 7% decline where Bahrain and Saudi Arabia under-performed by 371 and 180bps respectively while Oman, Qatar, Kuwait and UAE outperformed by 1494, 977, 399 and 281 bps respectively.

S&P Saudi Shariah TR Index decreased by 6.43% in November; however, cumulative inflows into the Net Foreign Portfolio Investment (NFPI) for the month were more than USD1,300mn. Local cement sales recorded 1.8% YoY decrease in November vs 9.1% in October 2022 mainly due to decline in mortgages. PMI for November 2022

increased to 58.5 vs 57.2 in October 2022, banking deposits also grew 9.8% YoY in October vs 10.1% in September, inflation nudged down slightly to 3% in October 2022 vs 3.1% in September. Value of POS+ATM transactions per terminal decreased by 19.9% YoY in October vs 18.8% decline in September. Mortgages sales amounted to SAR9.6bn in October vs SAR10.2bn in September 2022. Following the precedent Saudi central bank matched the Fed decision of 75bps rate hike, 3Q 2022 recorded 8.6% YoY GDP growth and 9M 2022 budget surplus came in at USD40bn. Saudi Foreign Direct Investment flows fell 85% YoY in 2Q22 at USD2.1bn, down from SAR13.8bn in the same period last year and GASTAT issued data showing moderation in Industrial Production to 15.7% YoY in Sep 2022, down from 16.8% YoY in August 2022.

In terms of reforms, Saudi Arabia committed USD2.5bn to Middle East green initiative, PIF completed secondary sale in Saudi Tadawul Group and announced joint efforts with Lazard for the mega Mecca project. A new Mining Index was envisaged at the stock exchange as mining assumes the role of fourth pillar of Saudi economy, Saudi Water and Electricity Regulatory Authority approved framework for self-consumption renewable energy systems and USD266mn were allocated for 50 small and medium tourism projects. Last but not the least Central Bank licensed a new payment financial technology company.

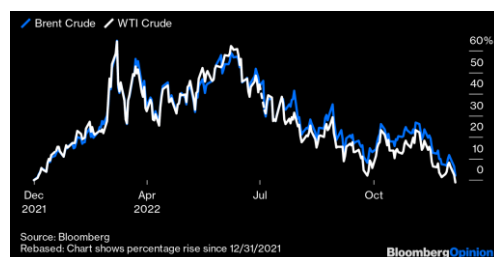
In terms of key developments, PIF reported 13% increase in 2021 profits and increased its stake in Meta and Alphabet in 3Q 2022. Riyadh office reported occupancy levels reaching 98%, USD30bn MoU signed with South Korea, and two more MoUs on energy sector cooperation were signed with Indonesia and Thailand respectively. Lastly, Nestle announced USD1.86bn investment program in Saudi Arabia over the next 10 years.

Brent recorded 9.9% decrease in November, while MSCI Emerging Market Index increased 14.6% and MSCI World Index registered 6.8% increase. Bloomberg Commodity TR Index also increased by 2.7% reflecting continuation of a technical correction after steep fall in the month of September. 3Q 2022 corporate results concluded depicting 14% QoQ decline and 30% YoY growth; moreover, US inflation and employment data softened the FED hawkish stance as they indicated a slow-down in rates increment.

Going forward, we believe that US inflation will keep on coming down sharply over November 2022 to February 2023 period closing in around 4%, especially after the significant correction in

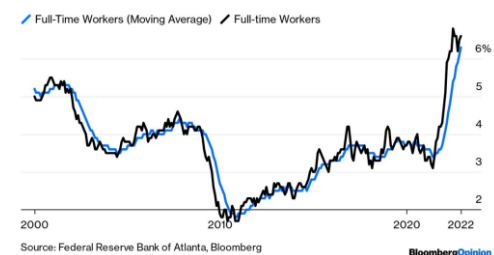
energy prices and slowdown in average hourly wage acceleration. Equity markets are likely to respond positively in advance anytime starting from now till the year end. Therefore, we believe that TASI will test 12100 levels before year end.

Oil - A Fall from Grace



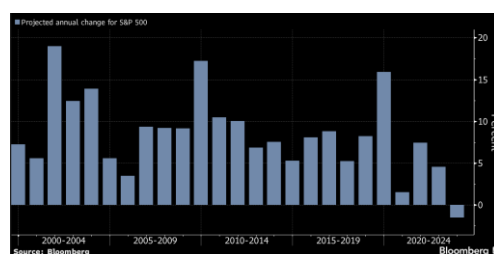
Source: Bloomberg

Inflation - There Are Costs Attached



Source: Bloomberg

Equities - What Could Possibly Go Wrong?



Source: Bloomberg



GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2019 (%)	2020 (%)	2021 (%)
World	DJIM World TR	7,511.03	(1.9)	(21.8)	(20.8)	(1.8)	7.5	8.2	9.7	30.9	28.2	19.7
Developed	DJIDEV TR	4,240.73	(2.2)	(21.8)	(20.6)	(0.4)	8.2	9.0	10.4	31.6	27.4	23.0
Emerging Markets	DJIEMG TR	4,500.95	1.6	(22.0)	(22.6)	(12.8)	2.1	1.7	4.1	22.7	35.3	(4.7)
Saudi	TASI	10,138.31	(7.0)	(9.5)	(7.3)	8.2	7.6	7.4	4.1	7.2	4.4	27.9
NAREIT	All REITS (EM Inc) TR	2,736.24	(0.4)	(22.0)	(19.5)	(1.0)	(4.1)	0.8	3.9	23.6	(9.2)	23.0
GSCI	All Commodities	572.44	(7.8)	2.0	5.7	21.6	10.7	6.4	(1.0)	23.6	(9.2)	37.1
Currencies	Euro	1.05	1.3	(7.3)	(6.7)	(6.6)	(1.6)	(2.2)	(2.0)	(2.2)	8.9	(6.9)
	Yen	136.56	1.1	(15.7)	(16.9)	(12.6)	(7.4)	(3.6)	(4.9)	1.0	5.2	(10.3)
	GBP	1.23	1.7	(9.4)	(7.3)	(4.3)	(2.3)	1.2	0.0	3.9	3.1	(1.0)

Source: Global Data as end of 9 December 2022. Saudi Market Data as end of 11 December 2022

*All values beyond 1 year are annualized

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