



EYES ON MARKETS

GLOBAL MARKETS

Despite the positive revisions, growth anticipations remain low with most of the world economies being positioned at the edge of the contraction phase of the business cycle, with notable exceptions of India, Mexico, and Japan that seem to be at a mid/late expansion phase. At the same time, China faces a series of challenges that prevent the country from re-boosting its economy.

Lower but above target level inflation should be present in most developed countries over the medium term, with higher rates for longer, affecting the performance of most asset classes and determining the investment decision and asset allocation.

In this environment, a neutral stance on public equities seems to be the most wise positioning, with a lower beta low-cost public equity portfolio composed by a defensive component overweighting specific sectors and countries and a higher beta concentrated stock portfolio to capture the remaining short-term positive trend of specific stocks.

Although higher interest rates create a more complex environment for Private Equity, especially for LBOs, overweighting this long-term investment horizon asset class should allow reaching higher levels of final performance, as long as a selective approach/private access approach is adopted with high-quality investments and managers and a special focus on secondaries and seasoned co-investments. Similarly, a quality and selective approach should be applied for Direct and Private Real Estate investment, avoiding office and commercial real estate while focusing on specific and niche segments and geographies.

Investing in diversifying and uncorrelated non-traditional asset classes (such as Private Infrastructure, Farmland, and Timberland) should definitely be part of the asset allocation of long-term investors.

REGIONAL MARKETS

SPSHDSLTL decreased by 3.8% as cumulative outflows from the Net Foreign Portfolio Investment (NFPI) for the month exceeded USD600mn. Local cement sales recorded an 11% YoY decrease in October 2023 vs 8% decrease in September 2023 as mortgages recorded an 18% MoM decrease but fell 40% YoY due to high interest rate environment. PMI for October 2023 increased to 58.4 vs 57.2 in September 2023, while banking deposits grew 8% YoY in September 2023 vs 10% in August 2023, inflation dipped to 1.69% in September 2023 vs 1.95% in August 2023. Value of POS + ATM transactions per terminal decreased by 16.7% YoY in September 2023 vs 17.3% decline in August 2023.

Mortgages sales amounted to SAR6.1bn in September 2023 vs SAR7.4bn in August 2023. McKinsey issued a report whereby it expects the Kingdom to spend USD175bn annually on mega projects despite crude oil exports in August hitting their lowest in 28 months. PIF is set to raise USD3.5billion in a debut sale of Islamic bonds that drew strong demand. Saudi Finance Minister said that running a fiscal deficit on its own "is not a problem at all," adding that "it will be a good thing if you're using the extra expenditure to grow your economy."

In terms of reforms, Ministry of Investment developed a mechanism to grant premium residency to executives based at regional headquarters, Saudi Traffic Department began e-monitoring of vehicle insurance violation and SAMA sought public consultation on draft amendment of the comprehensive motor insurance rules. Saudi Arabia announced launch of greenhouse gas credits scheme early next year that will allow companies to offset their emissions by buying credits from projects that voluntarily cut or remove greenhouse gas emissions. Moreover, extension of e-visa system to encompass six additional countries was announced and a single unified tourist visa system across GCC region to boost tourism within the next two years was also announced. Simultaneously, the government kept January 2024 deadline requiring international firms that wish to secure government contracts in the kingdom to locate their regional headquarters to Riyadh.

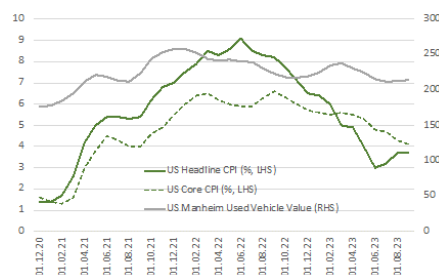
In terms of key developments, Ministry of Industry and Mineral Resources issued 136 industrial licenses in August compared to 102 in July, Ministry of Human Resources and Social Development announced an increase of 20% in the social security pension as well as SAR6.9bn disbursements during 9 Months 2023 for training, employment and empowerment programs and Tourism Minister announced that KSA could record c100mn tourist visits this year i.e., contributing c6% to GDP. PIF established a new company to develop the historic Jeddah district of Al Balad into a global tourist destination, announced a new investment company for automotive and mobility industry and partnered with the Saudi Electricity Company to launch an electric vehicle infrastructure company. Government announced continuity of the voluntary cut of 1MBPD of oil in November and December, and Saudi Arabia won the 2034 Soccer World Cup bid. The General Transport Authority (TGA) launched intercity bus services linking 200 cities in Saudi Arabia, UK-based IHG Hotels & Resorts moved to open its headquarters in Riyadh city, Hyundai Motor Group announced a car plant in Saudi Arabia jointly with PIF, warehouse rents in Riyadh rose 20% YoY in 1H23, Saudi Fund for Development signed a loan agreement with Grenada to provide USD100mn for

a climate-smart infrastructure project and Neom launched a new investment arm.

Brent recorded -8.4% movement in October 2023, MSCI Emerging Market Index and MSCI World Index fell 3.1% and Bloomberg Commodity Index declined 1.2%. US inflation data for September remained flat i.e., +3.7% YoY but monthly run rate decreased to 25bps vs 44bps in August and 42bps YTD average, while core inflation came down to 4.1% vs 4.3% last month. 3Q 2023 corporate results concluded with 15% QoQ and 1.5% YoY growth.

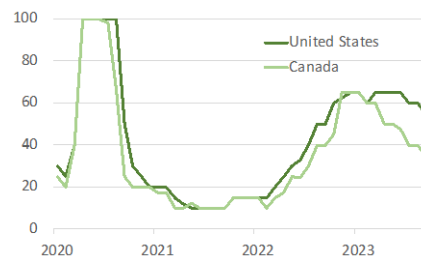
Going forward, we believe that both global and local markets know that a major decline in inflation has been recorded and the journey towards the 2% target will be slow and more painful than rewarding. Unless the FED changes its course rapidly the softer landing can easily be transformed into a painful recession needing another round of QE's to come out of the pit. In Saudi we started recovery towards 11,800 levels after the correction.

Some Early Signs of Inflation Pick-up



Source: BERG Capital Management and Bloomberg L.P.

North America (Bloomberg survey %)



Source: BERG Capital Management and Bloomberg L.P.



GLOBAL MARKETS INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)
World	DJIM World TR	6,229.47	8.3	19.6	16.9	(4.9)	4.7	11.3	9.4	(3.2)	28.2	19.7	(24.2)
Developed	DJIDEV TR	6,097.01	8.6	21.6	18.5	18.5	6.2	6.2	10.0	(3.2)	27.4	23.0	(24.2)
Emerging Markets	DJIEMG TR	4,999.07	6.1	2.0	2.7	(14.7)	(8.1)	3.8	3.8	4.4	35.3	(4.7)	(24.2)
Saudi	TASI	6,642.26	4.2	6.3	(0.0)	(3.0)	8.9	8.1	2.9	(3.3)	4.4	27.9	(6.4)
NAREIT	All REITS (EM Inc) TR	6,353.14	8.2	(2.0)	(2.0)	(13.2)	(2.0)	(0.5)	2.2	(4.8)	(9.2)	23.0	(23.6)
GSCI	All Commodities	2,608.38	(3.5)	(8.7)	(10.8)	(1.4)	14.6	5.2	(1.0)	(5.4)	(6.1)	37.1	8.7
Currencies	Euro	1.25	1.4	(12.4)	(6.3)	(12.7)	(11.4)	(5.5)	(3.9)	(1.5)	5.2	(10.3)	(12.2)
	Yen	1.09	2.5	3.1	5.0	(3.9)	(2.0)	2.5	0.3	0.5	3.1	(1.0)	(10.7)
	GBP	0.89	1.4	(4.4)	(0.8)	(6.0)	(3.1)	(0.8)	(1.7)	(0.3)	6.7	2.7	(7.9)

Source: Global Data as end of 19 November 2023. Saudi Market Data as end of 19 November 2023.

*All values beyond 1 year are annualized

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