EYES ON MARKETS

GLOBAL MARKETS

In 2023, the global markets witnessed a positive trend marked by declining inflation and expectations of rate cuts, alongside growing enthusiasm for AI and technology. Despite challenges such as higher interest rates, regional banking crises, and geopolitical conflicts, major equity markets performed exceptionally well. Bond markets also made significant progress during this period.

Moving ahead, as 2024 began, global markets experienced their worst start in over two decades. Initial optimism for swift rate cuts was tempered by the release of FOMC minutes, revealing uncertainty about the path and timing of rate adjustments by Federal Reserve officials. However, analysts foresee 2024 as a favorable year for risk-takers, anticipating early spring rate cuts by the FED and other central banks, leading to a "soft landing" in the United States and a quick exit from a mild recession in Europe. Having said this, there are multiple possible challenges facing this scenario including geopolitical, financial, and technological risks, resulting in significant potential dispersion in investment performance. In this complex environment, the careful selection of investment themes, sectors, geographic areas, and asset managers will be crucial for large asset owners in 2024.

In the current macroeconomic and market landscape, SC maintains an optimistic short-term view on liquid assets. The focus is on a positive outlook for equities in developed markets, especially in the US, with a cautious approach emphasizing the importance of prioritizing quality stocks. The short-term outlook for the European equity market is considered less vulnerable, leading to a gradual increase in European equity allocation, leveraging active management capabilities. While retaining a favorable stance on Japanese and Indian exposures in the Asia Pacific equity markets, we are closely monitoring Japanese equities due to potential risks associated with JPY appreciation, particularly in the event of US rate cuts. We recommend an overweight position in sukuk to capture attractive yields while benefiting from decreasing US rates. In the medium term, we anticipate that Central Banks' monetary policy will exhibit less predictability than currently perceived by the markets.

REGIONAL MARKETS

SPSHDSLT increased by 7.7% as cumulative inflows in the Net Foreign Portfolio Investment (NFPI) for the month exceeded USD490mn. Local cement sales recorded flat performance YoY decrease in December 2023 vs 5% decrease in November 2023 as mortgages recorded a 1% MoM decrease and reduced YoY fall to 9% vs 27% last month as interest rate outlook stabilized. PMI for December 2023 remained unchanged MoM at 57.5, while banking deposits grew 7.5% YoY in November 2023 vs 9.2% in October 2023, inflation inched up to 1.67% in November 2023 vs 1.62% in October 2023. Value of POS + ATM transactions per terminal decreased by 7.5% YoY in November 2023 vs 13.3% decline in October 2023. Mortgages sales amounted to SAR6.9bn in November 2023 vs SAR7.1bn in October 2023. Saudi Budget for 2024 was announced with 2023 estimate at SAR1.19trillion and 2024 forecast at SAR1.17trillion i.e., -1.6% movement. Expenditures are expected to fall by 1.9% YoY; hence, the deficit remains almost unchanged YoY. We estimate that to achieve targeted oil revenue Brent should yield USD77 average price for 2024. Moreover, considering disbursement trends across government entities the Capex is expected to be +22% for FY2024. Aggregate unemployment rate dropped to 5.1% in 3Q 2023, reflecting a decrease of 0.7 percentage points YoY, total assets of the Saudi Central Bank in November rose by 3.25% MoM to reach USD485.6 billion, and net foreign assets went up 2.89% to reach USD418.1 billion.

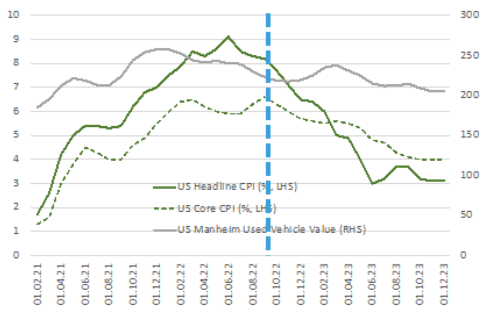
In terms of reforms, a new package of tax incentives was announced, including zero percentage of income tax, to multinational companies for 30 years in the event of relocation of their regional headquarters to Riyadh. Moreover, Saudi Arabia's Cabinet approved the contractual regulations for firms that do not have regional headquarters in the Kingdom. The government has previously stated that it will not award contracts to any foreign company or commercial entity with headquarters outside the Kingdom starting from January 1, 2024. Furthermore, it was announced that insurance sector jobs will be localized effective from 15 April 2024. Last but not the least, Saudi Tadawul Group and Shenzhen Stock Exchange signed an MoU to enhance cooperation and explore new opportunities in several areas.

In terms of key developments, Saudi government unveiled USD92 billion investment plan for Expo 2030. Tourism ministry said that Saudi Arabia will create as many as 250k jobs during its hosting of Expo 2030 in Riyadh. As an update it was announced that contracts worth USD2.67 billion have been awarded so far in the Qiddiya City project towards achieving 2030 targets. However, the Finance ministry announced that to build capacity and avert inflationary pressures / supply bottlenecks some of the projects under Vision 2030 have been extended up till 2033 / 2035. NEOM announced the launch of its company Topian, which aims to develop sustainable and innovative solutions for food production, distribution and consumption and Knight Frank issued a report wherein it is estimated that private education sector will require an additional 214K seats by 2035, with Riyadh needing c63.5K seats and Jeddah c42.6K. Simultaneously, the National Industry Strategy signed contracts worth USD $133 million.

Brent recorded a -7% movement in December 2023, MSCI Emerging Market Index registered 3.7% increment, MSCI World Index jumped up 4.8% and Bloomberg Commodity Index declined 3.1%. US inflation data for December increased to 3.3% YoY vs 3.1% in November while monthly run rate increased to -10bps vs -20bps in November and 31bps YTD average. Core inflation came down to 3.15% vs 3.39% last month. It seems that the market started factoring in the interest outlook for 2024.

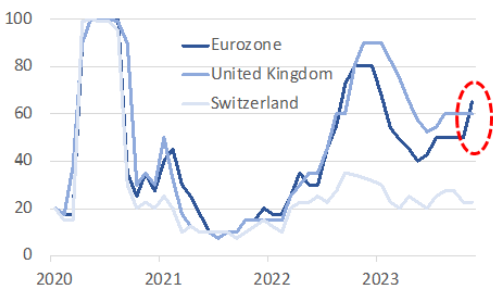
Going forward, we believe that both global and local markets know that interest rate decline in 2024 is forgone conclusion. Key differential the quantum estimation ranging from 100-200bps. We subscribe to the 200bps reduction in expected 12-month rate forward. TASI is likely to register a 13% YoY increase in earnings so by December 2024 we might see TASI close to 14,100.

Consumer Price Index in the US



Source: PNYX Group SA and Bloomberg L.P.

Probability of a recession in Western Europe (Bloomberg survey %)



Source: PNYX Group SA and Bloomberg L.P.

GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2021 (%)	2022 (%)	2023 (%)
World	DJIM World TR	9,198.53	(0.5)	(0.5)	20.6	(1.0)	4.1	13.2	9.8	19.7	(24.2)	27.0
Developed	DJIDEV TR	5,302.97	(0.3)	(0.3)	23.5	0.3	5.9	14.3	10.4	23.0	(24.2)	29.4
Emerging Markets	DJIEMG TR	4,498.21	(3.2)	(3.2)	(3.9)	(12.7)	(10.6)	3.8	4.1	(4.7)	(24.2)	6.4
Saudi	TASI	12,136.90	1.4	1.4	13.0	0.7	10.8	8.0	3.4	27.9	(6.4)	14.2
NAREIT	All REITS (EM Inc) TR	2,905.74	(1.2)	(1.2)	2.3	(8.0)	1.4	1.8	4.0	23.0	(23.6)	9.8
GSCI	All Commodities	533.73	(0.4)	(0.4)	(11.0)	(5.3)	7.2	5.8	(1.3)	37.1	8.7	(12.2)
Currencies	Euro	1.10	(0.6)	(0.6)	1.1	(2.1)	(3.5)	(0.9)	(2.2)	(6.9)	(5.8)	3.1
	Yen	145.76	(3.2)	(3.2)	(11.3)	(11.3)	(10.7)	(5.7)	(3.3)	(10.3)	(12.2)	(7.0)
	GBP	1.27	0.1	0.1	4.4	(3.6)	(2.3)	2.9	0.6	(1.0)	(10.7)	5.4

Source: Global Data as end of 12 January 2024. Saudi Market Data as end of 14 January 2024.

** All values beyond 1 year are annualized*

IMPORTANT INFORMATION

You should read this.