EYES ON MARKETS

GLOBAL MARKETS

The market sell-off that started in mid-July and continued into early August 2024 was a notable event, characterized by a significant downturn across major equity indices. The sell-off was triggered by mounting fears of a recession, exacerbated by the unwinding of an oversized yen-dollar carry trade, and growing concerns over the Federal Reserve's monetary policy direction.

During this period, the Nasdaq Composite suffered a steep decline, dropping over 10% from its recent peak, while the S&P 500 fell by 3%. The Dow Jones Industrial Average also saw a dramatic drop, plunging over 1,000 points in a single day on August 5th, marking one of the steepest declines since September 2022. This wave of selling pressure reflected investor anxiety over the potential for an economic downturn and the uncertainties surrounding the Fed's future actions.

However, the markets began to stage a strong recovery starting on August 5th, driven by a combination of easing inflation concerns, favorable economic data, and declining market volatility. Early August brought some relief to investors as inflation data showed signs of moderation, with the U.S. headline Consumer Price Index (CPI) falling below 3% for the first time since March 2021 and three months annual core PCE easing to 2.1%. This easing of inflation fears increases the likelihood of interest rate cuts by the Federal Reserve.

Central banks played a critical role in stabilizing the markets during this volatile period. On the 1st of August, the bank of England (BoE) has decided to cut interest rate by 25bps to 5%, marking the first cut since the start of the pandemic. Furthermore, the Bank of Japan (BoJ) signaled its strong support for the markets, which provided a much-needed boost to investor confidence. The BoJ's intervention was timely and effective, sparking a swift recovery in global markets. Additionally, a speech by Federal Reserve Chair Jerome Powell further uplifted market sentiment, as he indicated that a rate cut in September was likely, depending on the results of the upcoming August employment report. Subsequently, we have upgraded our outlook on DM equities, particularly in the US, due to dovish signals from Fed, easing inflation, and strong Q2 earnings.

The global impact of the sell-off was not confined to the U.S. alone. Japan's Nikkei 225 index experienced a dramatic 12% decline, its worst performance since the market crash of 1987. This sharp downturn was largely due to the unwinding of yen carry trades, which had been a popular strategy among global investors. European markets were also affected, with substantial declines reflecting the broader risk-off sentiment and the ripple effects of the yen carry trade unwind.

Despite the initial turmoil, the second half of August saw a marked improvement in market conditions. Better-than-expected economic data, including robust retail sales and lower-than-anticipated unemployment claims, suggested that the U.S. economy remained resilient in the face of potential headwinds. These positive indicators helped to restore investor confidence, leading to a rebound in equity markets and a decline in overall market volatility.

In summary, the period from mid-July to early August 2024 was characterized by significant market turbulence, driven by fears of a recession, central bank policy uncertainty, and the unwinding of key trading strategies. However, the strong recovery that followed, supported by easing inflation, central bank intervention, and solid economic data, helped to restore investor confidence and stabilize the markets as they headed into the latter part of the summer.

REGIONAL MARKETS

SPSHDSLT has increased 2.2% for the month of August as cumulative inflows to the Net Foreign Portfolio Investment (NFPI) for the month exceeded USD535mn. Local cement sales recorded +7.4% YoY movement in July 2024 vs -3.6% in June 2024 as mortgages recorded 29% YoY and 33% MoM increase. PMI for August 2024 increased to 54.8 vs. 54.4 in July 2024, while banking deposits grew 8% YoY in July 2024 vs 9.4% in June 2024, inflation remained flat at 1.53% in July 2024 vs 1.50% in June 2024. Value of POS + ATM transactions per terminal decreased by 1.5% YoY in July 2024 vs 9.5% decline in June 2024. Mortgages sales amounted to SAR7.3bn in July 2024 vs SAR5.5bn in June 2024. Saudi ports recorded 15.7% YoY increase in traffic for the month of July and Industrial Production Index (IPI) recorded 4% YoY decline in June.

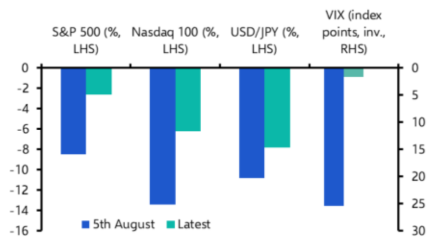
In terms of reforms, Saudi Arabia announced a significant overhaul of its investment law as part of its Vision 2030 reform strategy, aiming to strengthen its appeal to international investors. Furthermore, the government announced the possibility of giving several incentives including exemption of labor fee, expat fee, zakat and customs duties for the associations and societies operating in the non-profit sector. Saudi Human Resources Development Fund (HADAF) disclosed that they have spent about SAR3.7bn on programs and products to support employment, training, and qualification of Saudis during 1H2024. The tourism industry in the GCC region is expected to witness a Schengen-style program called "GCC Grand Tours and last but not the least Ministry of Education updated the requirements for opening nurseries and kindergartens facilitating private sector participation.

In terms of key developments, 6th round of subscription-based savings product, Sah, (5.48%.) was rolled out, General Entertainment Authority (GEA) disclosed that more than 16mn people visited events in 2Q 2024 i.e., 130% YoY growth, total number of licenses issued reached 1,529 7.3% YoY increase and Ministry of Industry and Mineral Resources opened bidding for 7 new exploration licenses covering c.1,000 square kilometers. US automaker Lucid Group secured USD1.5bn funding from its majority shareholder, Ayar Third Investment Co. (PIF affiliate), while another PIF company Badael inaugurated its manufacturing facility at Modon, Jeddah. Moreover, PIF declared 8.7% RoE for 2023 and secured USD15bn revolving credit facility. Number of Saudi citizens joining the private sector for the first-time doubled MoM in July to exceed 34,600, compared to 16,500 in June, Sakani program announced that 55,000 Saudi families have benefited during 1H24. Government decided to continue exemption of expatriates' fees for industrial sector till Dec.31 2025, Riyadh Metro commencement was announced for this year, initial planning on King Salman International Airport was started, largest integrated logistics zone for Maersk in the Middle East was inaugurated at Jeddah Islamic Port, it was announced that Saudi Arabia will host the Multilateral Industrial Policy Forum (MIPF) 2024 in October 2024, number of industrial facilities in Saudi Arabia increased by 60% since the launch of Vision 2030, and more than 57 international firms received licenses to relocate their regional headquarters to Saudi Arabia during 2Q 2024, representing 84% YoY increase.

Brent recorded a 2.4% decrease in July 2024, while the Bloomberg Commodity Index remained flat -0.35%. Both Dow Jones Islamic World Index and MSCI World Index were up 2% and 2.5% respectively, while MSCI Emerging Market Index was up 1.4%. Q2 2024 results concluded with 19% YoY growth without ARAMCO and 2% with ARAMCO. This clearly reflects the same theme that is vibrating across i.e., the local economy is doing very well while oil GDP is getting squeezed. This was the 2nd consecutive month where US inflation stood below the 3% YoY mark, so the speculative arena remained focused on whether a 25 or 50bps interest rate cut is coming in September 2024.

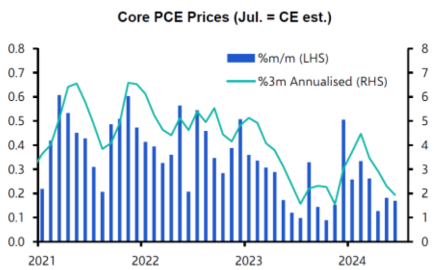
As the interest rate cut event approaches the local market rates are already dropping and large caps are showing signs of a possible rally northwards. In addition, the corporate results are also supporting similar eventuality. Furthermore, government spending is moving ahead in line with budget estimates so we maintain our bullish stance on the market albeit the year-end target may be lowered to 13,200 due to float considerations in large caps.

Equity Market Stabilization



Source: Capital Economics

Positive Data and Fed Signals Boost Market Confidence



Source: Capital Economics

GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2021 (%)	2022 (%)	2023 (%)	2024 (%)
World	DJIM World TR	10,440.06	(2.8)	12.9	19.2	18.6	3.5	13.1	10.2	19.7	(24.2)	27.0	12.9
Developed	DJIDEV TR	6,033.45	(2.8)	13.5	20.1	20.1	4.6	14.1	10.9	23.0	(24.2)	29.4	13.5
Emerging Markets	DJIEMG TR	4,977.00	(2.4)	7.1	10.0	5.2	(6.8)	4.7	3.6	(4.7)	(24.2)	6.4	7.1
Saudi	TASI	12,128.14	(0.1)	1.3	6.1	(0.3)	2.3	8.5	0.9	27.9	(6.4)	14.2	1.3
NAREIT	All REITS (EM Inc) TR	3,176.00	(0.3)	8.0	16.7	6.5	(2.7)	1.1	3.5	23.0	(23.6)	9.8	8.0
GSCI	All Commodities	520.20	(3.1)	(2.9)	(13.2)	(10.6)	(0.7)	5.2	(1.5)	37.1	8.7	(12.2)	(2.9)
Currencies	Euro	1.11	0.3	0.4	2.6	5.5	(2.3)	0.1	(1.5)	(6.9)	(5.8)	3.1	0.4
	Yen	143.74	1.7	(1.9)	1.9	(1.2)	(8.6)	(5.8)	(3.1)	(10.3)	(12.2)	(7.0)	(1.9)
	GBP	1.31	0.2	3.3	4.1	6.9	(1.8)	3.0	1.0	(1.0)	(10.7)	5.4	3.3

Source: Global Data as end of 04 September 2024. Saudi Market Data as end of 04 September 2024.

** All values beyond 1 year are annualized*