

# EYES ON MARKETS

## GLOBAL MARKETS

Restoring price stability will likely require maintaining a restrictive policy stance for some time to come. The historical record cautions strongly against prematurely loosening policy” (FOMC Chair Powell, Jackson Hole address): as physical commodities’ fundamentals signal some of the tightest markets in decades, sub-par growth alone won’t do the trick to tame inflation, and additional tightening might be the catalyst for an early end to the expansion. While moderating recently, Core CPIs remain historically high, especially in non-US DMs.

As supply constraints abate, Central Banks will keep hiking rates while still remaining data-dependent for some time. Market expectations of a dovish pivot are proving unrealistic, for now. Looking forward, however, a faster CPI drop and a negative growth environment in 2023 might push the Fed to begin lowering interest rates again before the end of next year.

Activity has weakened considerably, with the latest PMIs pointing to a contraction in most DMs. The forward-looking components suggest that worse is to come, with new orders and export orders continuing to fall at a fast rate. China will be key in determining the direction of travel. Despite the reopening bounce, China’s latest data have been pointing to a potential loss of momentum into year-end. The new stimulus package in itself is not likely to keep growth from moderating substantially in Q4.

We continue to expect plenty of volatility in response to conflicting economic (down) and inflation (up) data in the next few months. The bear equity cycle will start bottoming when cyclical disinflation will start offsetting the negative impact of downward EPS revisions.

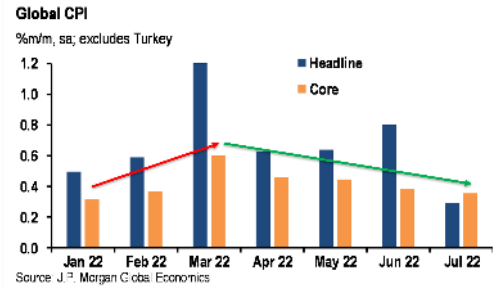
## REGIONAL MARKETS

YTD 2022 (August 29) S&P Sharia GCC Total Return Index (SPSHGT) is up 9.27% wherein Qatar, Kuwait, and KSA are the outperformers i.e., up by 20.7%, 11.7% and 9.8% respectively. Bahrain, UAE and Oman underperformed as they recorded -5.3%, 0.4% and 3.7% return.

YTD Brent is up 35.1%, while MSCI Emerging Market Index is down 19.5% and MSCI World Index registered 17.4% decline. Bloomberg Commodity TR Index increased by 27.6% reflecting supply side issues. Since our last communication markets have been wrapped around the inflation and growth theme. In terms of regional markets expectations of a trickle-down impact from excess fiscal accounts drove the prices up.

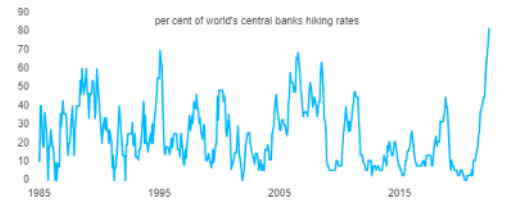
Going forward we believe that arrival of US inflation statistics for August would determine the market sentiment as interest rate outlook is the most influential factor in the prevailing situation. We expect that by end of 3Q 2022 FED would dilute its hawkish stance as supply side issues resolve and headline inflation shows persistent downtrend as core inflation has been tapering down for the last 4 months. Regional markets are expected to remain positive as Brent prices hover around USD100 and global economy normalizes post COVID-19.

## Global Inflation – A False Positive?



Source: (J.P.Morgan)

## Global Rates – Through The Roof



Source: (TSLombard)

## Global Macro – DM Suffering



Source: (Capital Economics)

## GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2019 (%)	2020 (%)	2021 (%)
World	DJIM World TR	7,615.86	(3.2)	(20.7)	(17.9)	1.8	10.8	10.1	10.1	30.9	28.2	19.7
Developed	DJIDEV TR	4,297.40	(3.6)	(20.8)	(17.4)	3	11.5	10.9	10.7	31.6	27.4	23
Emerging Markets	DJIEMG TR	4,590.91	1	(20.4)	(22.5)	(8.2)	5.7	3.2	5	22.7	35.3	(4.7)
Saudi	TASI	12,530.66	2.7	11.9	12.1	25.7	15.3	11.5	5.8	7.2	4.4	27.9
NAREIT	All REITS (EM Inc) TR	2,868.19	(4.9)	(18.2)	(14.9)	4.6	(0.9)	2.3	5	23.6	(9.2)	23
GSCI	All Commodities	702.23	1.4	25.1	32.7	39.7	20.3	13.2	0.5	23.6	(9.2)	37.1
	Euro	1.00	(2.2)	(12.1)	(15.2)	(8.4)	(3.3)	(3.5)	(2.2)	(2.2)	8.9	(6.9)
Currencies	Yen	138.72	(3.9)	(17)	(20.8)	(12.8)	(8.4)	(4.6)	(5.5)	1	5.2	(10.3)
	GBP	1.17	(3.8)	(13.5)	(14.9)	(6.4)	(1.3)	(0.3)	(0.1)	3.9	3.1	(1)

Source: Global Data as end of 29 August 2022. Saudi Market Data as end of 29 August 2022.

\*All values beyond 1 year are annualized

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