EYES ON MARKETS

GLOBAL MARKETS

As we end 2019 and enter 2020, valuations already appear more expensive than usual at the beginning of an upswing, especially in the US. Furthermore, volatility is already lower than is typical when the business cycle starts to improve.

2019 Facts: sub-par growth, below-target inflation, slump in business confidence, investment spending and corporate profits, broadest global Central Banks' easing in a decade, modest fiscal easing, strong US Dollar, lower bond yields, low volatility, big rotation out of defensives into cyclicals, strong equity rally after the slump in Q4 2018, US outperformance.

2020 Expectations: trend GDP growth with temporary narrowing of divergences, slightly firmer inflation, near-trend profits growth, no monetary tightening, very limited fiscal thrust, lower-than-average returns and yields, abundance of value traps, higher cross-assets volatility, short-term tactical opportunities driven by sentiment and positioning, higher risks of mean reversions.

What could go wrong? The trade pain is on the upside. With reduced geopolitical risk, the global economy should pick up in 2020 as a result of the lagged impact of synchronised easing. A continued rotation into cyclicals supported by a steepening US yield curve and driven by a stronger-than-expected upturn would deliver one more year of decent returns as valuations improve, earnings revisions turn positive and positioning becomes heavier. In this scenario, the USD could decline vs EM currencies, supported by converging outcomes across regions, hence pointing to outperformance of value stocks as well as non-US equities. But an escalation of the trade war in the US Election year would cause volatility to spike, preventing a PMI recovery and possibly leading to a recession, especially if China's growth decelerates at a faster pace.

REGIONAL MARKETS

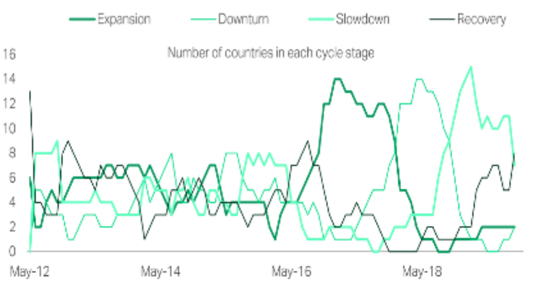
YTD S&P Sharia GCC Total Return Index was up 4.96% wherein Kuwait and Saudi Arabia were the best performers up 11% and 6% respectively while Qatar and Bahrain were the worst performers down 3.2% and 1.7%. Saudi Arabia on the back of Index inclusion + ARAMCO IPO developments and Kuwait scheduled for MSCI Emerging Market Index inclusion showed this performance while others succumbed to regional political and global economic headwinds.

Saudi Arabia has witnessed inflows into Net Foreign Portfolio Investment (NFPI) in excess of USD22bn YTD as the inclusion story culminated. Another factor that helped Saudi and Kuwaiti stocks during the last month was +6.2% Brent movement. 3Q 2019 corporate results also concluded and the entire region recorded -10% YoY movement while showing +5.4% QoQ. Saudi Arabia depicted worst performance down 19% YoY while the best performance came from Kuwait down 1.2% YoY. Construction Materials topped with 381% YoY growth for 3Q 2019 while Chemicals came last with 59% drop.

UAE posted a mixed bag of news while Kuwait came out with the most positive news flow amongst all. Qatar news flow remained thin and insignificant while Oman and Bahrain could not inspire with their news flow as well. Saudi cement manufacturers posted fifth month of consecutive YoY increase and the PMI also clocked 57.8 vs 57.4 last month. The most significant development during the last month is the ARAMCO IPO whereby Saudi government is arising USD26bn at company valuation of USD1.7 trillion. Being a local IPO the foreign participation is likely to be mostly limited to strategic buyers and passive EM trackers.

Going forward our expectation is lackluster till the close of year as UAE remains the cheapest, Kuwait remains on the toes with MSCI Emerging Market Index announcement and Qatar speculates over possible reconciliation within the region.

Global Growth – Recovery Mode

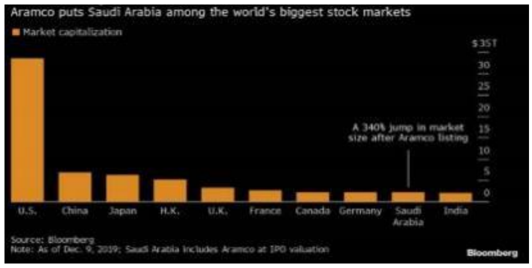


Source: TSLombard

China – Acceleration in sight?

Source: Citi

EM Equities – KSA über alles?



Source: Bloomberg

GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD	YTD	1Y	2Y	3Y	5Y	10Y	2016	2017	2018
World	DJIM World TR	6141.9	1.8	28.3	22.6	9.9	14.4	10.2	9.8	5.5	27.0	(7.0)
Developed	DJIDEV TR	3397.3	1.6	29.1	23.1	10.7	14.5	10.4	10.4	5.5	25.6	(6.2)
Emerging Markets	DJIEMG TR	4358.6	4.1	19.6	16.9	2.5	12.9	7.2	5.1	6.6	43.3	(15.0)
Saudi	TASI	8049.5	2.4	2.8	1.7	6.5	4.4	0.4	2.8	4.4	0.2	8.3
NAREIT	All REITS (EM Inc) TR	3044.4	(1.3)	19.9	14.5	7.2	9.2	6.6	8.8	4.6	15.0	(5.5)
GSCI	All Commodities	428.1	4.6	14.4	3.7	1.5	2.6	(0.9)	(1.3)	27.8	11.1	(15.4)
Currencies	Euro	1.1	0.9	(3.0)	(2.1)	(3.0)	1.5	(2.3)	(2.7)	(3.2)	14.1	(4.5)
	Yen	109.4	0.1	0.3	3.9	1.4	1.7	1.7	(2.0)	2.8	3.8	2.7
	GBP	1.3	3.1	4.5	5.4	(0.3)	1.7	(0.4)	0.5	(16.3)	9.5	(5.6)

Source: Bloomberg / Dow Jones Data as of 12 December 19. Saudi Market Data as of 15 December 19

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