EYES ON MARKETS

GLOBAL MARKETS

Despite a new surge in COVID-19 cases, the rollout of vaccination programs worldwide still is a positive factor for markets expectations of a gradual recovery. The results of the Georgia Senate runoff has granted Democrats a slim majority through VP Harris's casting vote. However, we expect flexibility to be constrained in both the Senate and the House. Fiscal spending may accelerate, but thin majority margins will keep the check-and-balance dynamic under control on the prospects for gradual corporate and income tax increases until 2022.

In real terms, yields have moved further into negative territory as inflation expectations increased driving a steepening in the US Treasuries curve. Base effects vs 2020 will boost the Core CPI for some time, however structural challenges should continue to hold inflation below the FED's 2% target and only increase modestly over the next few years before accelerating later in this decade driven more by constrains on the supply side (cost-push) than by consumer spending (demand-pull). The recovery later this year might be faster than consensus, however as the output gap is still wide in most economies Central Banks will keep policy loose for longer. Nevertheless, the balance of risks is skewed towards an earlier, possibly sharper increase at least in the US. If so, the FED's rhetoric will be fine-tuned ahead of time.

US equity valuations appear elevated on an absolute basis, but factoring in low interest rates the market actually trades at below-average historical valuation. To be sure, a spike in real rates would be consistent with some downside due to multiples compression. Yet, as growth momentum improves any fallout from rising rates should be contained, so insulating equities from such a drag. The risk of a yield-induced equity sell-off might increase as growth momentum peaks later this year. A sharper drag can't be ruled out, though, as in 2013 with the "taper tantrum". If so, US and Chinese equities might be worse hit than Europe and Asia.

REGIONAL MARKETS

YTD S&P Sharia GCC Total Return Index (SPSHGT) was up 2.05% wherein UAE, Kuwait and Bahrain were the out-performers i.e. up by 10.95%, 5.07% and 4.27%. Saudi Arabia, Qatar and Oman were the under-performers i.e. up by 0.83%, 1.71% and 1.77% respectively.

S&P Saudi Shariah SAR Total Return Index (SPSHSART Index) increased YTD by 0.83% as cumulative inflows in the Net Foreign Portfolio Investment (NFPI) exceeded at USD520mn. Local cement sales recorded 21% YoY growth in 2020, PMI for December was at 57 vs 54.7 in November, banking deposits grew 8% YoY in 2020, e-Commerce volume reached USD12bn, crude exports rose 1.5% MoM in October for 4th consecutive rise and inflation remained flat MoM at 5.8% YoY for October/ November.

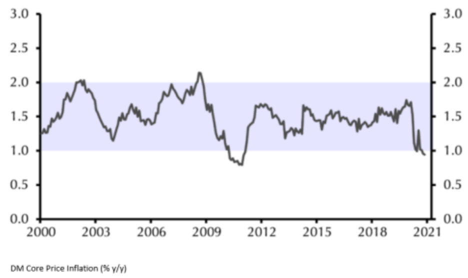
Apart from these other news were negative as 2021 fiscal plan envisages 7% cut in spending and OPEC reducing its 2021 oil demand forecast by 4%. Amongst key reform measures were 15% import duty on imported vegetables and nationalization of 30% accounting jobs. Key developments included central bank extending COVID-19 support payment deferral plan until 1Q 2021 and Saudi Arabia - Qatar resolving differences.

YTD GCC markets mainly UAE, Qatar and Kuwait registered USD588mn worth of inflows from NFPI. UAE PMI was recorded at 49.5 in November, same level as in October, 5th stimulus package of USD86mn was announced and the non-oil economy is expected to grow 3.6% in 2021. Several reforms were introduced in UAE including but not limited to licensing of digital payment providers, real estate construction sector, monetary policy instruments and dual listing with Tel Aviv stock exchange. In Kuwait, the government resigned again, November banking data showing retail credit pick-up, Standard and Poor's affirmed Kuwait's AA- ratings with negative outlook, and a survey highlighted the precarious situation of majority of SMEs. Oman remained in news as Fitch showed concerns over fiscal plans, government implemented new energy and subsidy policy while tourists' visas were opened. Qatar's economy contracted 4.5% in 3Q20 and it announced 2021 budget of USD53.5bnsignifying 7.5% cut in expenditure from 2020 and forecast deficit of 9.5bn next year on lower revenues. Bahrain raised USD2bn through Sukuk issuance, attracted USD885mn investments in 2020 and approved increase in pensions.

Brent increased by 8.8% YTD, while MSCI Emerging Market Index went up by 7.6% and MSCI World Index registered 2.4% increase. The month saw beginning of 4Q 2020 results announcement, Saudi Public Investment Fund outlining 10-year strategy of domestic investments and relaxation of COVID-19 related travel schedules from March 31, 2021 completely and Saudi Ministry of Finance supporting listed firm through various incentives.

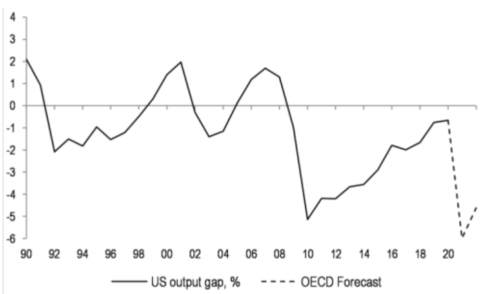
Going forward, reverberations in global economic and political situation arising from change of guard in USA would be the key driver of many areas especially in the Middle East region. Pace of Saudi PIF disbursements towards domestic investments and COVID-19 recovery are the positive drivers expected to keep the market buoyant. It's a forgone conclusion that markets have detached themselves from fundamentals for the time being and are driven by liquidity and news flow. Till the time global liquidity flows are rationalized the irrational market behavior may continue.

Inflation – Up? So What?



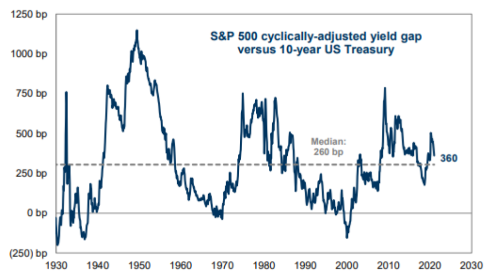
Source: Capital Economics

US Growth – Mind The Gap



Source: J.P.Morgan

US – "Not as absurd as some people think"*



President Trump took office on January 20, 2017.
The S&P 500 traded at 2271 and reflected a forward P/E multiple of 16.9x.
The 10-year US Treasury yield was 2.5% and the earnings yield gap was 340 bps.

Joe Biden took the oath of office on January 20, 2021.
At 3800, the S&P 500 traded at 23x consensus bottom-up 2021E EPS of $168.
The 10-year US Treasury yield was 1.1% and the earnings yield gap was 320 bps.

* - Robert Shiller, Making Sense of Sky-High Stock Prices, Project Syndicate, Nov 30 2020

Source: Goldman Sachs

GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2018 (%)	2019 (%)	2020 (%)
World	DJIM World TR	8372.4	4.3	4.3	30.2	28.6	15.3	18.8	11.4	(7.0)	30.9	28.2
Developed	DJIDEV TR	4554.6	3.2	3.2	28.0	27.9	15.3	18.5	11.9	(6.2)	31.6	27.4
Emerging Markets	DJIEMG TR	6798.8	12.3	12.3	48.9	33.3	13.5	21.5	7.7	(15.0)	22.7	35.3
Saudi	TASI	8847.0	1.8	1.0	5.5	2.2	5.8	9.5	2.8	8.3	7.2	4.4
NAREIT	All REITS (EM Inc) TR	2850.8	0.0	0.0	(10.4)	2.2	1.3	6.5	5.8	(5.5)	23.6	(9.2)
GSCI	All Commodities	431.5	5.4	5.4	6.2	2.6	(2.2)	8.8	(3.6)	(15.4)	16.5	(6.1)
Currencies	Euro	1.2139	(0.6)	(0.6)	10.1	3.2	(0.7)	2.3	(1.2)	(4.5)	(2.2)	8.9
	Yen	103.75	(0.5)	(0.5)	5.3	2.8	1.8	2.7	(2.3)	2.7	1.0	5.2
	GBP	1.3675	0.0	0.0	4.6	1.8	(1.1)	2.7	0.6	(5.6)	3.9	3.1

Source: Global Data as end of 25 Jan 21. Saudi Market Data as end of 25 Jan 21. ** All values beyond 1 year are annualized*

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