

# EYES ON MARKETS

## GLOBAL MARKETS

Tail risks around quickly-evolving consensus forecasts have increased. A sustained shut-off of Russian energy exports to the West could push oil prices above \$150/bbl, European inflation to 10% and global GDP by 3% in the absence of an offset in crude supply from other sources.

China/Russia trade links have strengthened in recent years, albeit disproportionately: shipments to China account for around 15% of Russia's exports, but less than 3% of China's imports. Also, imports from China represent almost 24% of Russia's imports, but only around 2% of China's exports. Capacity constraints, limited demand upside and geopolitical risks make any substantial rebalancing very complex.

As Fed tightening remains the strongest headwind, the US market has only limited upside. The key risk is that the Fed could aggressively prioritise price stability over slowing growth, ultimately resulting in a policy error. Also, elevated geopolitical tensions persisting beyond several months could present significant downside risk to fundamentals (declining demand, lower investment activity, margin pressure, credit losses).

A further bounce in Europe's equities following a ceasefire in Ukraine may prove temporary as the underlying macro environment would remain unsupportive, given slowing growth and scope for further upside for real bond yields on the back of Fed tightening.

China's recent lockdowns are a potential demand-side shock that could partly offset the supply-side shock to some commodities. However, excess liquidity is turning up, valuations remain very low, relative performance is discounting falling PMIs, earnings revisions have been rolling over, and "common prosperity" appears to be taking a backseat.

## REGIONAL MARKETS

During 2022 S&P Shariah GCC Total Return Index (SPSHGT) was up 13.7% wherein Qatar and Kuwait were the outperformers i.e. up by 19.4% and 14.4% respectively. Oman, Bahrain, UAE and Saudi Arabia were the under-performers generating returns of -4.0%, -2.5%, 10.9% and 13.4% respectively.

S&P Saudi Shariah SAR Total Return Index (SPSHART Index) increased YTD by 13.4% as cumulative inflows in the Net Foreign Portfolio Investment (NFPI) exceeded at USD6.7bn for the year. Local cement sales recorded 11.8% YoY decline in February, on the back of slowdown in mortgage activity. Inflation rose to 1.6% in February vs 1.2% in January driven by higher costs of gasoline and food prices. 4Q 2021 GDP numbers were announced whereby 6.7% growth

was recorded, and 2021 FY clocked 3.2%. Public debt recorded the first quarterly decrease since 1Q2017 driven by SAR20.7bn external debt repayment.

Reform focus took a more forward-looking approach as Saudi National Development Fund announced to inject USD152bn in domestic economy by 2030. Saudi Nuclear Energy Holding Company was established to participate in projects locally and internationally. The Saudi Central Bank extended a guaranteed financing scheme for micro, small, and medium-sized businesses for one more year. To date, the Guaranteed Financing Program has provided more than USD3bn financing.

In terms of key developments, COVID-19 restrictions were lifted, 12 new Defence production agreements were signed creating 1500 new jobs and Saudi Arabian Military Industries signed 3 financing agreements worth USD1.8bn for projects related to defence industries localization. Aramco discovered natural gas fields in four major areas and signed an MoU with Sinopec for potential downstream collaboration in China.

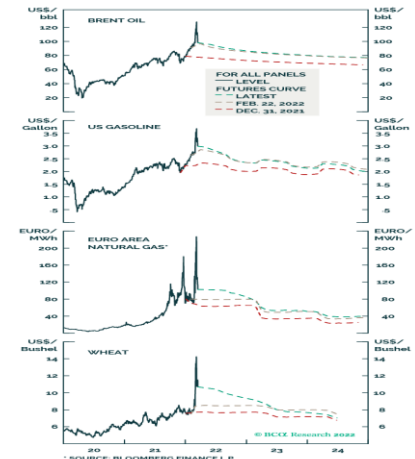
YTD GCC markets mainly UAE, Qatar and Kuwait registered USD4,677mn worth of inflows from NFPI, while UAE's PMI rose to 54.8 from 54.1 in January. UAE adopted first law regulating virtual assets and it got included in FATF Gray List. Oman also scrapped all COVID-19 related restrictions, allowed real estate ownership to non-Omanis, slashed expat visa fee, granted first license for crowdfunding platform, announced mineral development policy and metro for capital city (Muscat). No news flow from Qatar and Kuwait appointed new governor of their Central bank.

Brent recorded sharp increase of 16.8% in March, while MSCI Emerging Market Index decreased by 3.4% and MSCI World Index registered 2.1% appreciation. 2 new IPOs were announced in March on main / parallel Saudi markets as the sentiment remained upbeat. Bloomberg Commodity TR Index also registered 9.6% increase during the month as COVID-19 recovery picked up pace. Till March 18, 2022 81% of Saudi Market Capitalization announced corporate results depicting 32% YoY growth.

Global economic outlook remained uncertain as political turmoil continued in Eastern Europe. Following up on that commodities, especially energy related, spiked up increasing the chances of global recession in 2nd half of 2022. Similar concerns were depicted by US FED. Political surprises may cause amplified volatility both in commodities and equity markets. In the Saudi context, prevailing oil prices offer a great opportunity to beef up reserves so expecting extraordinary fiscal spending may not be feasible rather marginal spending boast is more likely. Globally, we expect resolution of.

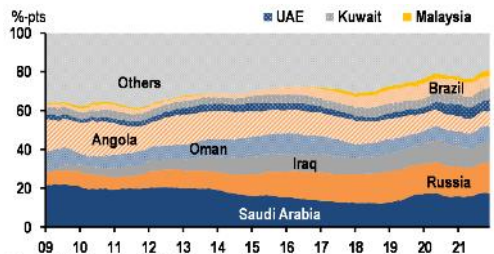
European political turmoil before Summer so 2H 2022 should witness rationalization in commodity prices, downward thrust in inflation and reversal of some expected rate hikes.

## Inflation – Global



Source: BCA Research

## Geopolitics – Beijing Calls Moscow



Source: China Customs, J.P. Morgan

Source: J.P. Morgan

## China Equities – Armageddon Priced In



Source: Credit Suisse

## GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2018 (%)	2019 (%)	2020 (%)
World	DJIM World TR	8639.5	0.9	(10.1)	6.3	34.8	16.7	14.6	11.3	30.9	28.2	19.7
Developed	DJIDEV TR	4886.9	1.5	(9.9)	9.9	36.6	17.8	15.3	12	31.6	27.4	23
Emerging Markets	DJIEMG TR	5092.9	(4.5)	(11.7)	(19.3)	21.2	7.8	8.7	5.1	22.7	35.3	(4.7)
Saudi	TASI	12875.8	2.3	15	35.7	44.6	14.2	13.2	5.5	7.2	4.4	27.9
NAREIT	All REITS (EM Inc) TR	3332.6	2.6	(5)	9.6	29.6	5.2	6.7	7.1	23.6	(9.2)	23
GSCI	All Commodities	725.6	7.8	29.3	54.6	70	18.6	13.6	0.2	16.5	(6.1)	37.1
Currencies	Euro	1.1051	(1.5)	(2.8)	(7.3)	0.6	(0.8)	0.6	(1.7)	(2.2)	8.9	(6.9)
	Yen	119.17	(3.5)	(3.4)	(8.6)	(4.8)	(2.2)	(1.1)	(3.5)	1	5.2	(10.3)
	GBP	1.3178	(1.8)	(2.6)	(5.4)	6.5	(0.2)	1.4	(0.2)	3.9	3.1	(1)

Source: Global Data as end of 18 March 2022. Saudi Market Data as end of 20 March 2022.

\* All values beyond 1 year are annualized

## IMPORTANT INFORMATION

### You should read this

This document is only intended for the persons to whom SEDCO Capital or one of its affiliates ("SEDCO Capital"), or its designated representatives, has given it directly. This document is not to be distributed, published, copied, transmitted or otherwise given in whole or in part to other parties without the express written consent of SEDCO Capital. These materials are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use is contrary to local law or regulation. Persons into whose possession this document comes are required by SEDCO Capital to inform themselves about and to observe any restrictions as to the offer or sale of the interests described herein under the laws and regulations of any territory in connection with any applications for such interests, including obtaining any requisite governmental or other consent and observing any other formality prescribed in such territory. No action has been taken or will be taken in any jurisdiction by SEDCO Capital that would permit a placing of the relevant interests in any jurisdiction where action for that purpose is required, nor has any such action been taken with respect to the possession or distribution of this document.

The information and opinions in this document were prepared by SEDCO Capital. The information herein is believed by SEDCO Capital to be reliable and/or has been obtained from public sources believed to be reliable. SEDCO Capital makes no representation or warranty as to the accuracy or completeness of any of the information contained herein. This document is not exclusive to any recipient and SEDCO Capital may undertake business in respect of any of the concepts represented by this document with other parties other than a particular recipient. SEDCO Capital may also undertake business which is inconsistent with the trading suggestions made in this document. This material has been prepared solely for purposes of illustration and discussion. Under no circumstances should the information contained herein be used or considered as an offer to sell, or solicitation of an offer to buy any security. Any security offering is subject to certain investor eligibility criteria as detailed in the applicable offering documents. The information contained herein is confidential and may not be reproduced or circulated in whole or in part.

Opinions, estimates and projections in this document constitute the current judgment of SEDCO Capital and are subject to change without notice. SEDCO Capital has no obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments also are subject to change without notice.

This document is provided for informational purposes only. It is not to be construed as an offer to buy or the solicitation of an offer to sell any security or to participate in any particular investment strategy in any jurisdiction. Any such investment activity must only be made on the basis of final form offering materials which will only be made available to those who demonstrate the capacity to evaluate the risks and merits of this investment. Under no circumstances should the delivery of this document, irrespective of when it is made, create an implication that there has been no change in the affairs of SEDCO Capital or any of its products since the date of this document. Prospective investors should not treat the contents of this document as advice relating to legal, Shari'ah, taxation, investment or any other matters.

Any financial instruments discussed in this document may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. An investment in certain financial products may only be suitable for certain sophisticated investors who have no need for immediate liquidity in their investment. Income from an investment may fluctuate and the price or value of financial instruments described in this document, either directly or indirectly, may rise or fall and an investor may lose all moneys invested. Furthermore, past performance is not necessarily indicative of future results.

The accompanying documents are produced solely for the specified recipient. By accepting this information, you agree: (i) not to transmit, reproduce or make available to any other person all or any part of the accompanying documents; and (ii) to all of the terms of the foregoing.