

# EYES ON MARKETS

## GLOBAL MARKETS

A rise in cyclical price pressures is evident. Wages could produce a more persistent inflation overshoot in the US and the UK than in the Euro Area and Japan. If interest rates need to rise further as a result of stubborn inflation, then Central Banks might be forced to engineer a recession in order to squeeze activity sufficiently to bring inflation expectations down.

China's Central Bank prefers to use credit policy, especially targeted instruments, due to: 1. accelerated pace of Fed hikes, reversal in US-CN rates differentials, capital outflows and risks of CNY depreciation; 2. inflation expected to exceed 3% in 2H22 driven by energy and food prices; 3. lack of confidence in rate cuts to support credit demand and economic activity.

Fed has likely reached the point of peak hawkishness. Bond yields are now lower since the Fed meeting, especially the 2-year, and the yield curve is steeper. As the Growth part of the equity market has been very weak in the past months, losing 23% vs Value from highs, this should act to support the broader equity indices at least for a while.

Forward-looking 12m PEs are down 30% on average from 2021 highs. Q1 EPS results have been resilient, with notable upward revisions to growth rates now turning positive again in the Eurozone and in the US. If only a shallow recession materialises, equities have a chance to recover from here as multiples derating, reduced positioning, high allocation to cash and downbeat investor sentiment trigger contrarian buy signals on a tactical basis. Longer-term, though, we still stay on high alert.

## REGIONAL MARKETS

SPSHDSLTL increased by 4.4% as cumulative inflows in the Net Foreign Portfolio Investment (NFPI) for the month were more than USD890mn. Local cement sales recorded 7.7% YoY decline in March, on the back of slowdown in construction activity owing to onset of slow season ahead. PMI for April 2022 decreased to 55.7 from 56.8 in March, banking deposits grew 9.4% YoY in March 2022 vs 8.7% in February 2022, inflation jumped to 2.0% in March 2022 vs 1.6% in February driven by higher costs of gasoline and food prices. Value of POS + ATM transactions per terminal decreased by 12.9% YoY in March vs -12.1% in February. IMF revised up Saudi GDP forecast for 2022 by 2.8% estimating it to clock at 7.6% due to increase in oil production and non-oil growth exceeding expectations. ARAMCO, being the anchor of Saudi economy, saw its outlook revised up by Fitch from 'stable' to 'positive'. Capitalizing upon improving macros National Debt Management Center issued USD2.6bn SAR-denominated Sukuk.

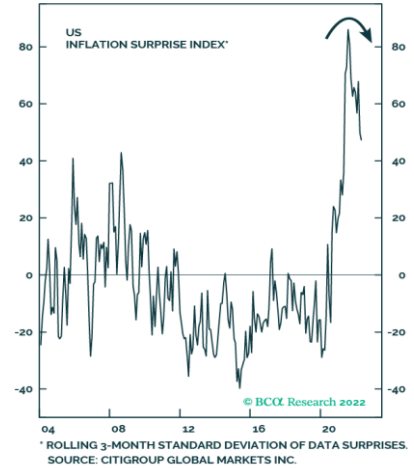
Reform focus shifted more towards consolidation, rationalization and preservation as Saudi competition authority approved 88% more mergers & acquisitions requests in 1Q22, Central Bank halted online account opening for better KYC compliance and government reduced its holding in US treasuries by 37% i.e. USD68bn over the last 2 years.

In terms of key developments, Hajj quota was increased to 1mn, private sector employees registered with GOSI increased 6% YoY in 4Q21, Consortium led by ACWA Power started work on the world's largest green hydrogen project in NEOM with USD900mn engineering contract, KSA + UAE offered USD3bn to Yemen for supporting war shattered economy, Red Sea Development Co., announced signing of 800+ contracts worth USD5.3bn that includes agreement with Public Transport Authority to develop the legislative and regulatory environment for land, sea and rail transport activities. PIF-owned Saudi Arabian Military Industries (SAMI) signed a deal with Boeing to develop a joint venture aimed at scaling up the Kingdom's aviation sector and 260 new industrial licenses were issued in 1Q2022 vs 206 in 4Q2021.

Brent recorded 1.33% increase in April, while MSCI Emerging Market Index decreased by 5.8% and MSCI World Index registered 8.4% decline. Bloomberg Commodity TR Index increased 4.1% in line with Brent. The month saw beginning of 1Q 2022 corporate results announcement; however, pace remained slow due to Ramadan effect. Reduced working hours, though not for the market, impacted traded value as it recorded 9.5% dip MoM.

In line with our expectations volatility in global equities rose sharply during the month as VIX recorded 60%+ increase. Expectations of a global recession in 2nd half of 2022 also crystalized further and equities corrected in response. In Saudi Arabia, elevated oil prices protected the market plus expectations of MSCI rebalance increasing Saudi Arabia weight due to increased float kept the sentiment positive. Globally, Ukrainian crisis took a back seat as recession fears took over. We expect the markets to remain volatile until inflation numbers show stabilization southwards.

## US – Better, But Still Bad Enough



Source: (BCA Research)

## China – Give Credit Where Credit Is Due



Source: (J.P.Morgan)

## EM Equities – Peaky Oil?



Source: (BAML)

## GLOBAL MARKET INDICES

Region/Sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2019 (%)	2020 (%)	2021 (%)
World	DJIM World TR	7,494.69	(6.2)	(22)	(11.8)	10.8	11.6	10.5	10.9	30.9	28.2	19.7
Developed	DJIDEV TR	4,217.90	(6.4)	(22.3)	(10.1)	11.7	12.2	11.1	11.5	31.6	27.4	23
Emerging Markets	DJIEMG TR	4,629.17	(4.3)	(19.8)	(24.9)	4.1	6.7	5.6	5.7	22.7	35.3	(4.7)
Saudi	TASI	12,427.96	(9.5)	11	19.8	32.8	13	12.2	5.9	7.2	4.4	27.9
NAREIT	ALL REITS (EM Inc) TR	2,981.04	(7.2)	(15)	(6.5)	13.5	1.1	4	6.6	23.6	(9.2)	23
GSCI	All Commodities	765.76	1.2	36.5	52.4	59.4	20	14.4	2	23.6	(9.2)	37.1
Currencies	Euro	1.06	0.2	(7.1)	(13.6)	(1.9)	(1.8)	(1.2)	(1.9)	(2.2)	8.9	(6.9)
	Yen	127.88	1.4	(10)	(14.9)	(8.3)	(4.9)	(2.7)	(4.7)	1	5.2	(10.3)
	GBP	1.25	(0.7)	(7.8)	(12.1)	1	(0.6)	(0)	(0.4)	3.9	3.1	(1)

Source: Global Data as end of 20 May 2022. Saudi Market Data as end of 21 May 2022.

\* All values beyond 1 year are annualized

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