



EYES ON MARKETS

GLOBAL MARKETS

After the positive US inflation surprise, the Fed will likely need to see Core CPI slowing down towards flat on a monthly basis, as well as confirmation that unemployment has picked up in earnest, and clear evidence that inflation expectations moderate. These conditions may only materialise by the end of Q1 2023 as policy rates approach 5%.

The question is how much of the relief rally in stocks and bonds on better inflation numbers is supported by improving fundamentals rather than positioning - and in which asset classes. "Peak hawkishness" implies a slower pace of tightening and an earlier pause in the monetary cycle: this is Dollar bearish as rates differentials are now perceived to shift in favour of non-US economies. It is also bullish for bonds as the fall in US Treasury yields may prove sustainable so long as Core CPI surprises on the downside. But how sustainable it is for equities still remains to be seen, as FY 2023 earnings downgrades have picked up of late.

The biggest uncertainty is therefore about the interaction between inflation and margins. At a time of negative real wages, if inflation declines but remains high, companies that are unable to pass through price increases are hurt on top-line revenue growth or margins, or both. Moreover, it increases the risk that if the Fed needs to resume tightening after a possible pause or even a temporary policy reversal, the rate tailwind will shift to a headwind. This is not yet priced in.

For now, we believe this is another bear market rally yet - only one with better hopes. But hope is not a strategy: after recently adding back to risk, at this stage we are considering to hedge our bets again, with more turbulence ahead in 2023.

REGIONAL MARKETS

YTD 2022 (November 16) S&P Sharia GCC Total Return Index (SPSHGT Index) is up 0.46% with Qatar (+8.8%), Kuwait (+7%) and UAE (+1.4%) outperforming the broader GCC index. Bahrain (-9.8%), Oman (-1.9%) and Saudi Arabia (-1.15%) have underperformed.

YTD Brent is up 19.4%, while MSCI Emerging Market Index is down 22.5% and MSCI World Index registered 17.8% decline. Bloomberg Commodity TR Index increased by 19.6% YTD driven by supply side issues. World Bank forecast Saudi real GDP growth at 8.3% in 2022 and 3.7% in 2023, while IMF Global growth forecast slows from 6.0% in 2021 to 3.2% in 2022 and downgrades 2023 growth forecasts to 2.7% from previous 2.9% forecast in July.

3Q 2022 corporate results for the Saudi market almost completed as 98% of market capitalization declared results. YoY its shows 30% improvement while without ARAMCO it is flat. QoQ ex-ARAMCO it is 22% decline while with ARAMCO it's a 14% decline. US inflation data for October was released that printed 20bps below expectation. Chances are high that November data will also print 60-70bps lower inflation due to seasonality as well as base effect.

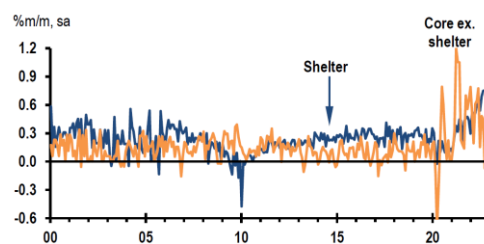
Going forward, we believe that US inflation will come down sharply over November 2022 to February 2023 period closing in around 4%. This expected move will be reacted upon by FED with dilution in their stance and equity markets are likely to respond positively in advance anytime starting from now till the year end. Therefore, we believe that TASI may register a rally of 12-14% in the next couple of months.

US Inflation - Still Ambiguous



Source: (Bloomberg)

US Inflation - Underlying Downside Pressures



Source: (JPMorgan)

US Dollar - Peak Relative Strength



Source: (Alpine Macro)



GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2019 (%)	2020 (%)	2021 (%)
World	DJIM World TR	7,512.14	5.7	(21.8)	(21.0)	(0.1)	8.2	8.4	10.1	30.9	28.2	19.7
Developed	DJDEV TR	4,270.64	5.2	(21.3)	(19.9)	1.6	9.2	9.4	10.8	31.6	27.4	23.0
Emerging Markets	DJIEMG TR	4,225.39	10.7	(26.8)	(30.4)	(13.1)	0.4	0.3	3.7	22.7	35.3	(4.7)
Saudi	TASI	11,211.70	(3.9)	0.1	(5.4)	15.2	12.0	10.1	5.1	7.2	4.4	27.9
NAREIT	All REITS (EM Inc) TR	2,719.74	6.9	(22.4)	(20.5)	(0.9)	(3.7)	0.6	4.2	23.6	(9.2)	23.0
GSCI	All Commodities	646.73	1.6	15.2	11.0	32.3	15.8	8.6	0.2	23.6	(9.2)	37.1
Currencies	Euro	1.03	4.7	(9.0)	(9.6)	(6.3)	(2.1)	(2.4)	(2.0)	(2.2)	8.9	(6.9)
	Yen	138.81	7.1	(17.1)	(17.8)	(12.8)	(7.7)	(3.9)	(5.4)	1.0	5.2	(10.3)
	GBP	1.18	3.1	(12.6)	(11.5)	(5.4)	(2.7)	1.1	0.1	3.9	3.1	(1.0)

Source: Global Data as end of 11 November 2022. Saudi Market Data as end of 12 November 2022

*All values beyond 1 year are annualized

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