



# EYES ON MARKETS

## GLOBAL MARKETS

Momentum in the three largest economies is diverging. In China, while spending and production might be affected in case of a rebound in infections, at this stage most leading indicators point to an earlier bounce in activity. On the other end, Eurozone's resilience in the face of the large energy shock is impressive. Activity readings through year-end and a recent sharp drop in natural gas prices suggest that a significant slowdown can be averted. US momentum, however, is sliding more sharply than expected. Despite growing at a strong 2.8%ann. in Q4 2022, the composition of GDP growth has raised questions, as fixed investment stalled, exports dropped, spending contracted at year-end alongside an increase in the savings rate, causing a sharper-than-anticipated rise in inventories. This doesn't bode well for 2023.

A "risk-off" period may prompt the recent US Dollar weakness to come to a halt for a while. But after leading the way in 2022, the Fed is now closer to the end of its tightening cycle than other DM Central Banks. BoE, ECB and BoJ will keep hiking rates to tame inflation. Therefore, the anticipated narrowing of interest rate differentials has already caused a USD pullback against DM majors. In this scenario, which might last for months at best, unhedged non-US assets typically outperform.

We believe that what is in fact imminent is a US earnings recession. Companies are at risk of seeing disappointing margins, leading to significantly negative operating leverage as sales fall off quickly and unexpectedly, while costs remain sticky in the short term. Against this backdrop, we reiterate our overall cautious stance with an increase in the US Equities UW and an increase in the EM Equities OW, while taking Sukuk to OW as the rates cycle might have peaked.

## REGIONAL MARKETS

During January 2023, S&P Saudi Sharia Domestic SAR Total Return (SPSHDSLTL) Index increased by 5.39% and the portfolio increased by 3.26% wherein RJHI, CENOMICE and ELM contributed 118, 54 and 34 bps each to the returns while SAFCO, MEPC and RYDREIT detracted 31, 20 and 14 bps from the returns.

SPSHDSLTL increased by 5.39% as cumulative inflows into the Net Foreign Portfolio Investment (NFPI) for the month were more than USD17mn. Local cement sales recorded 6.2% YoY decrease in December vs 1.8% in

November 2022 as mortgages recorded 20% MoM and 36% YoY decline and progress on large projects slowed down due to seasonal factors. PMI for January 2023 increased to 58.2 vs 56.9 in December 2022, while banking deposits grew 9.1% YoY in December 2022 vs 10.5% in November, inflation increased to 3.3% in December vs 2.9% in November 2022. Value of POS + ATM transactions per terminal decreased by 19% YoY in December vs 22.8% decline in November. Mortgages sales amounted to SAR6.6bn in December vs SAR7.7bn in November 2022. Saudi Arabia's real GDP growth for 2023 and 2024 was downgraded by 0.1pp and 1.5pp to 3.7% and 2.3%, respectively by World Bank. National Debt Management Centre announced 2023 financing needs to be cSAR45bn (USD12bn) and Finance Ministry approved the 2023 annual borrowing plan. Moreover, cSAR48bn for 2023 financing needs was raised in pre-funding transactions during 2022.

In terms of reforms, Saudi Central Bank announced plans to launch open banking services in 1Q2023. Moreover, Companies with foreign operations not exceeding SAR1mn were allowed to operate in Saudi Arabia without local headquarters. New companies' law, replacing old Companies Law of 2015 and Professional Companies Law of 2019, came into force last week that is expected to be instrumental in further stimulating and developing the commercial system. It provides flexibility to protect companies and empower the private sector in a way keeping pace with best international practices. Last but not the least SAMA reduced minimum paid-up capital for finance firms supporting SMEs.

In terms of key developments, 82 new industrial licenses were issued in December 2022 Haj quota was announced to reach pre-pandemic levels, significant quantities of uranium were discovered, and Events Investment Fund (EIF) was launched to develop sustainable infrastructure for the culture, tourism, entertainment, and sports sectors. SAMA continued to test its digital currency, PIF launched Tabuk entertainment destination with development value of over SAR1bn, Real estate deals worth more than SAR10bn (USD2.66bn) were signed on the opening day of the second edition of the Real Estate Future Forum in Riyadh and Red Sea Global handed out USD270mn contract for infrastructure works at the luxury destination.

Brent recorded -1.7% movement in January 2023, while MSCI Emerging Market Index increased 7.9% and MSCI World Index registered 7.0% increase, while Bloomberg Commodity TR Index remained flat registering -0.5% movement. US inflation data continued its downside and FED almost confirmed 25bps rate hike in its next announcement scheduled for early February 2023.

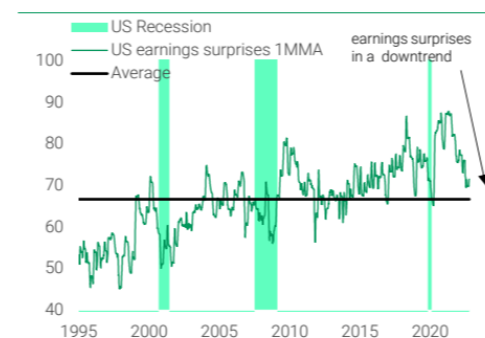
Going forward, we believe that US inflation will keep on coming down sharply over February 2023 to May 2023 period closing in below 3%, as the higher interest rates trickledown effect takes place. If the monthly US inflation run rate for January comes out to be negative, then we might see US FED stance shifting fast towards soft landing and equity markets are likely to respond positively in advance. Therefore, we believe that TASI will test 12300 levels before year end.

## Rates - Something Gotta Give



Source: Wilshire

## Equities - Weakening Momentum in US Earnings



Source: TSLombard

## Equities - Emerging Markets Are Up For Grab



Source: Bloomberg



## GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)
World	DJIM World TR	7,830.12	7.5	7.5	(11.5)	(1.3)	7.8	7.6	9.6	28.2	19.7	(24.2)	(20.0)
Developed	DJIDEV TR	4,415.91	7.4	7.4	(11.1)	0.4	8.4	8.4	10.2	27.4	23.0	(24.2)	(21.6)
Emerging Markets	DJIEMG TR	4,740.05	8.5	8.5	(15.4)	(14.0)	2.6	0.5	4.3	35.3	(4.7)	(24.2)	(5.6)
Saudi	TASI	10,792.85	3.0	3.0	(12.1)	11.4	9.7	7.1	4.4	4.4	27.9	(6.4)	(22.3)
NAREIT	All REITS (EM Inc) TR	2,910.69	8.6	8.6	(12.6)	1.6	(2.4)	1.3	3.9	(9.2)	23.0	(23.6)	7.8
GSCI	All Commodities	606.06	(0.7)	(0.7)	(2.8)	18.6	15.9	5.8	(1.1)	(9.2)	23.0	8.7	(28.0)
Currencies	Euro	1.09	1.5	1.5	(3.3)	(5.4)	(0.7)	(2.6)	(2.2)	8.9	(6.9)	(5.8)	3.2
	Yen	130.09	0.8	0.8	(11.5)	(10.3)	(5.9)	(3.4)	(3.4)	5.2	(10.3)	(12.2)	19.8
	GBP	1.23	2.0	2.0	(8.4)	(5.2)	(2.3)	0.3	(0.1)	3.1	(1.0)	(10.7)	7.6

Source: Global Data as end of 31 January 2023. Saudi Market Data as end of 31 January 2023

\*All values beyond 1 year are annualized

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