



EYES ON MARKETS

GLOBAL MARKETS

Slowing inflationary pressures provide central banks with an opportunity to conclude their tightening cycles soon, mitigating the risk of further de-rating in the stock market. The US labor market presents mixed signals, with a combination of strong employment figures, an increase in unemployment rates, and a decline in wage growth. However, the resilience of the services sector and sufficient savings rates play a crucial role in supporting consumption and maintaining economic stability.

Despite the presence of positive indicators, it is important to acknowledge the heightened risk of a recession. Factors contributing to this risk include tighter financing conditions implemented by banks, a reduced likelihood of interest rate cuts for 2023, and concerning declines in recent ISM new orders. China's reopening trade has stalled due to slowing recovery, but improved consumer sentiment and attractive valuations offer investment opportunities.

The outlook for developed markets, particularly the United States, has been upgraded to a positive stance, as the debt ceiling crisis has been averted, accompanied by ongoing softer inflation data and improving earnings. However, it is crucial to remain aware of the lingering risk of a recession as a downside concern. Conversely, a sharp decrease in inflation represents an upside risk, suggesting the potential for positive economic and market outcomes.

REGIONAL MARKETS

SPSHDSLTL decreased by 3.31% as cumulative inflows into the Net Foreign Portfolio Investment (NFPI) for the month were more than USD390mn. Local cement sales recorded 12.4% YoY decrease in May 2023 vs 13.76% decrease in April 2023 despite new mortgages recording 42% MoM and 54% YoY decrease due to unfavorable interest rate environment. PMI for May 2023 decreased to 58.5 vs 59.6 in April 2023, while banking deposits grew 10.4% YoY in April 2023 vs 10.8% in March 2023, inflation slightly dipped to 2.7% in April 2023 vs 2.74% in March 2023. Value of POS + ATM transactions per terminal decreased by 24% YoY in April 2023 vs 22% decline in March 2023. Mortgages sales amounted to SAR4.3bn in April 2023 vs SAR7.5bn in March 2023. 1Q 2023 budget stats were announced whereby deficit of USD770mn was

reported due to increased spending on salaries and economic diversification projects. Simultaneously, GDP grew by 3.9% wherein non-oil activities grew by 5.8% and oil activities by 1.3%. Industrial production index (IPI) increased 4.1% YoY in March 2023 led by manufacturing that expanded by 10.5% YoY, while mining and quarrying was up 1.6% along with 16.6% increase in electricity and gas supplies. World Bank forecast Saudi non-oil GDP growth at 4.7% in 2023 and USD6billion were raised from sale of two-tranche sukuk by the government.

In terms of reforms, positive affect on private sector remained the key theme for the month as number of small and medium-sized enterprises (SMEs) more than doubled since the launch of the Vision 2030 program to 1.14mn in 2022. Moreover, Ministry of Industry and Mineral Resources launched new Industrial Business Accelerator and Incubator Initiative to support private sector mining ventures. Capital market Authority announced that 24 IPOs are in pipeline for 2023 and vowed to increase foreign ownership as percentage of free float market capitalization to 16.5% by the end of 2023. Real Estate Development Fun, Bank Al Bilad and Saudi British Bank signed agreements under the newly updated Sakani housing program, allowing non-refundable grants of up to SAR150,000 on off-plan, ready to move or self-construction housing units.

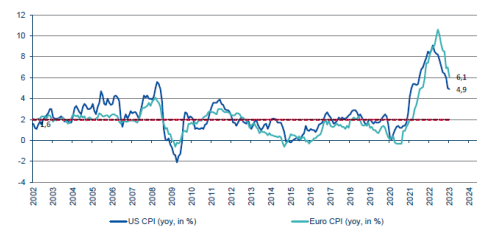
In terms of key developments, PIF announced creation of 1.8million direct and indirect jobs, GACA issued public tender for a national economic carrier license to operate domestic and international flights from King Fahd International Airport and Ministry of Industry & Mineral Resources issued 332 new industrial investment licenses with an investment value of SAR8.2billion. As KSA received 16.6 million tourists in 2022 and jumped 16 ranks in global tourist ranking, Radisson Hotel Group announced 100 additional properties in KSA over the next 5 years. Deloitte opened Artificial Intelligence institute in Saudi Arabia while Human Resources Development Fund supported 96,000 Saudi men and women to work in the private sector's establishments during 1Q23.

Brent recorded -8.4% movement in May 2023, MSCI Emerging Market Index decreased 1.9%, MSCI World Index registered 1.2% decline, and Bloomberg Commodity TR Index decreased by 5.1%. US inflation data for April printed inflation below 4% validating the last expected hike. The month experienced pre-summer usual selling

along with aggregate lower macroeconomic expectations due to negative oil price move. Moreover, 1Q 2023 corporate results also concluded with 3% QoQ and -23% YoY growth.

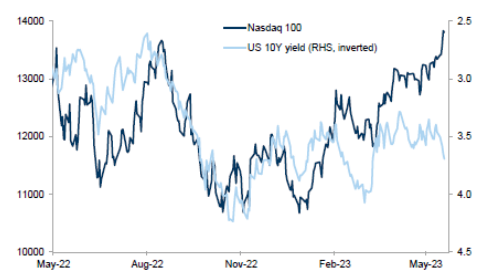
Going forward, we believe that both global and local markets are aware of the declining US inflation phenomenon from June 2023 and the fact that further rate hikes are highly unlikely. As China restores supplies the pressure on BCOM is also evident and OPEC+ policy of pro-active moves is making sure that oil does not slide below USD70. Eventually, as we move into second half focus will shift to interest rate cuts as inflation declines rapidly and growth becomes sluggish. Hence, we maintain the re-rating outlook and continue to see TASI testing 12300 levels before year end.

US and Euro CPI YoY (%)



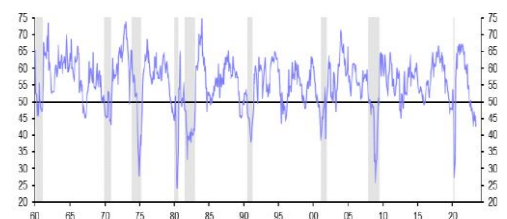
Source: Bloomberg, Amundi Institute

Nasdaq 100 and US 10y yield (inverted)



Source: Datastream, Goldman Sachs Global Investment Research

ISM Manufacturing New Orders Index



Source: Refinitiv, Capital Economics



GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)
World	DJIM World TR	6,296.09	2.6	15.5	9.0	(1.6)	9.0	9.3	10.0	1.0	28.2	19.7	(24.2)
Developed	DJIDEV TR	6,248.89	2.6	17.0	11.1	11.1	10.2	10.2	10.7	1.3	27.4	23.0	(24.2)
Emerging Markets	DJIEMG TR	4,809.79	3.4	1.4	(8.7)	(16.6)	(0.7)	0.3	4.2	4.4	35.3	(4.7)	(24.2)
Saudi	TASI	6,858.52	3.5	8.8	(9.6)	2.8	15.9	6.7	4.2	(2.6)	4.4	27.9	(6.4)
NAREIT	All REITS (EM Inc) TR	6,641.52	3.4	1.5	(8.5)	(10.5)	0.7	0.0	2.7	(4.5)	(9.2)	23.0	(23.6)
GSCI	All Commodities	2,579.21	2.2	(11.5)	(33.9)	0.7	18.5	2.5	(1.5)	(6.5)	(6.1)	37.1	8.7
Currencies	Euro	1.26	(0.0)	(5.9)	(3.6)	(11.3)	(8.2)	(4.7)	(3.5)	(2.2)	5.2	(10.3)	(12.2)
	Yen	1.07	1.1	4.0	0.6	(5.6)	(0.4)	1.8	0.4	(1.8)	3.1	(1.0)	(10.7)
	GBP	0.90	(0.3)	(3.3)	(6.1)	(5.4)	(0.2)	(2.1)	(1.5)	(2.8)	6.7	2.7	(7.9)

Source: Global Data as end of 11 June 2023. Saudi Market Data as end of 11 June 2023.

*All values beyond 1 year are annualized

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